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Fonds: Records of the Office of the President

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THE WORLD BANK
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McNamara tapes

Travel to
Kiev. 5

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TRIP TO ECUADOR
November 13-16, 1979

- A. Itinerary and Arrival Statement
- B. Government Officials
- C. Background Notes
 - Andean Group
 - Economic Situation
 - Political Situation
 - Social Indicators
- D. Bank Group Operations
- E. UNDP Activities
- F. Information Media

ITINERARY

Mr. McNamara's November 13-16 Visit to Ecuador

Tuesday, November 13

13:55 Arrival Quito on Varig Flight 878

16:00 Meeting with President Roldos at
 Presidential Palace*

17:15 Meeting with Vice President at his
 offices*

18:45-19:45 Meeting with economic team at the
 Monetary Board conference room in
 Central Bank. Minister of Natural
 Resources and high ranking officials
 of CEPE and INECEL will also attend
 to discuss energy matters*

20:00 Dinner at La Merced Convent with Senior
 Government officials hosted by the
 President of the Monetary Board
 (Leon Roldos) and the General Manager
 of the Central Bank (Germanico Salgado)

Wednesday, November 14

7:30 Departure by car for Ambato. Brief
 stop at Bank-financed school in
 Latacunga

10:30 Visit (two hour) of the Tungurahua
 project site. This project is the
 first rural development operation
 financed by the Bank in Ecuador

13:00 Depart by plane for Ibarra

13:45 Arrival Ibarra by plane

14:00 Arrival for luncheon with Mr. Galo Plaza
 at Zuleta, his farm

16:30 Departure by plane for Quito

17:00 Arrival Quito

18:30 Visit to Central Técnico, vocational
 school whose equipment was financed
 under First Education Credit

20:30 Dinner with President at Presidential Palace

* The Government is preparing a separate program for Mrs. McNamara during these meetings.

Thursday, November 15

9:00 - 11:00	Tour of Quito
12:00 - 12:30	Plane trip to Guayaquil on SAN Airlines flight WB829
13:00	Lunch with Government Authorities and Guayaquil financial community
15:30 - 17:30	Visit of proposed Guayaquil urban development project sites. Mr. McNamara would also visit some of the Guayaquil Water Company's works financed under Loan 1030-EC
17:45	Visit to Guayaquil Port whose improve- ments are financed under Loan 1255-EC
Evening	Private dinner

Friday, November 16

7:30	Departure by helicopter to Central Bank Rural Development Fund (FODERUMA) project at Guamote in Chimborazo province
8:30 - 9:30	Visit of Guamote project
9:30	Return by helicopter to Guayaquil
10:30	Arrival in Guayaquil
12:00	Short briefing on potential of Guayas basin
12:45	Fifteen minute airport press conference
13:30	Departure for Miami on Argentine Airlines flight 342

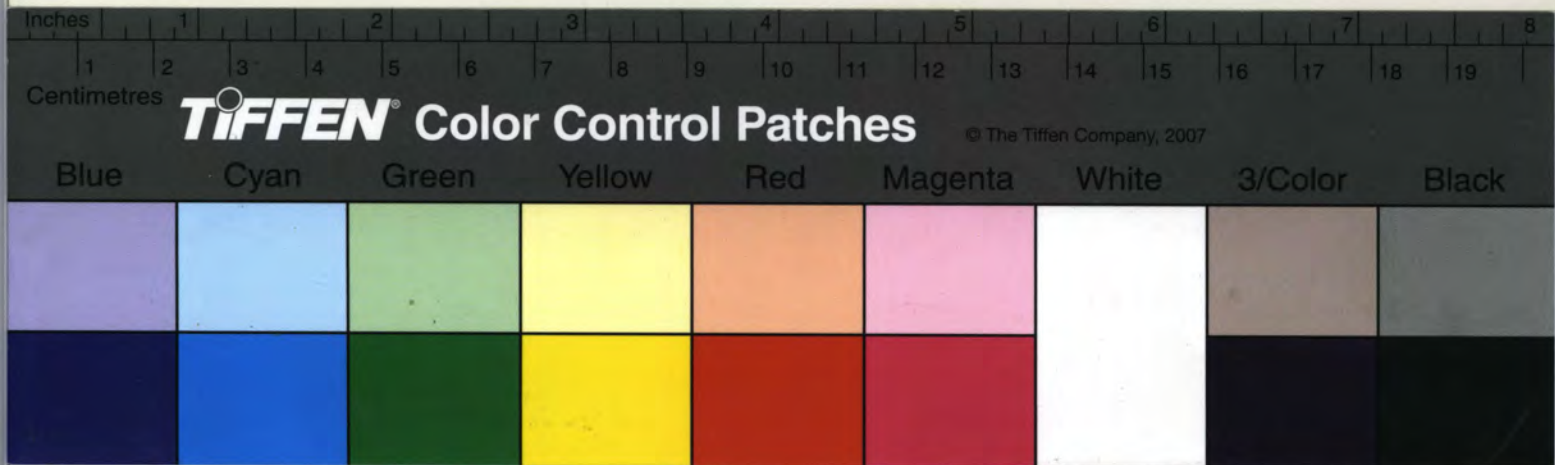
MAP OF
MR. McNAMARA'S ITINERARY

IBRD 14137
MARCH 1979



- ▶ Wednesday, November 14
- ▶ Thursday, November 15
- ▶ Friday, November 16

N.B. Dotted and solid lines denote travel by car and air, respectively.



ITINERARY

MR. McNAMARA'S NOVEMBER 13-16 VISIT TO ECUADOR

Tuesday, November 13

- 13:55 Arrival Quito on Varig Flight 878.
- 16:00 Meeting with Vice-President at his offices.*
- 17:00-18:30 Meeting with economic team at the Central Bank. The Minister of Natural Resources and the General Manager of INECEL (the National Power Company) will also attend to discuss energy matters.*
- 19:45 Departure from hotel for a quick visit of Quito by night.
- 20:30 Dinner at La Merced Convent with senior Government officials hosted by the President of the Monetary Board (León Roldós) and the General Manager of the Central Bank (Germánico Salgado).

Wednesday, November 14

- 8:00-10:00 Tour of Quito.
- 10:30-10:50 Flight to Ibarra.
- 10:50-11:15 Trip by car to Central Bank Rural Development Fund (FODERUMA) project at Panecillo in Imbabura Province.
- 11:15-12:15 Visit of Panecillo Project.
- 12:15-13:00 Car trip to Mr. Galo Plaza's farm, Zuleta.
- 13:00-15:00 Luncheon with Mr. Galo Plaza.
- 15:00-15:30 Return by car to Ibarra Airport.
- 15:30-16:00 Flight to Quito.

* The Government has prepared a separate program for Mrs. McNamara during these activities. Her program is attached.

- 17:30-18:30 Visit to Central Técnico, vocational school whose improvements were partially financed under the First Education Credit.
- 20:00 Meeting with President Roldós at Presidential Palace.
- 20:30 Dinner with President at Presidential Palace.

Thursday, November 15

- 7:00 Depart for airport.
- 7:30-8:00 Flight to Latacunga.
- 8:00-8:45 Bus ride to Tungurahua Project site. This project is the first rural development operation financed by the Bank in Ecuador.
- 8:45-10:45 Visit of Tungurahua Project.
- 10:45-11:20 Return to Latacunga.
- 11:20-11:45 Brief stop at Bank-financed Simón Rodríguez School.
- 11:50-12:20 Flight to Guayaquil.
- 13:30-15:30 Lunch with the local Authorities and Guayaquil financial community at the Club de la Unión offered by Mr. José Correa, President of COFIEC (Ecuador's largest private DFC).*
- 16:00-16:30 Briefing on proposed Guayaquil Urban Development Project at airport.
- 16:30-18:30 Visit by helicopter of proposed Guayaquil Urban Development Project sites.
- Evening Private Dinner.

Friday, November 16

- 7:30-8:00 Travel by boat to Guayaquil Port, whose improvements are financed under Loan 1255-EC.
- 8:00-8:45 Visit of Guayaquil Port.
- 8:45-9:15 Trip by car to airport.

9:15-10:00	Briefing at the airport on potential of the Guayas Basin.
10:00-11:30	Overflight of Guayas Basin and Santa Elena Peninsula.
12:30-12:45	Brief press conference at hotel.
12:45-13:05	Car ride, to airport.
13:30	Departure for Miami on Argentine Airlines Flight 342.

DATE	TIME	GMT	REMARKS
Nov. 12 Mon.	1200-1415		Working lunch hosted by Minister Delfim Netto and Ministers Portella (Education), Soares (Welfare & Social Assistance), and Arcoverde, (Health) Planning Ministry
	1430-1450		Meet w/Minister Ramiro Saraiva Guerreiro <i>country club</i> Itamaraty
	1500-1530		Meet w/Dr. Galveas and Dr. Langoni, President and Director respectively of Central Bank Central Bank
	1545-1645		Meet w/Minister Camillo Penna <i>business on economic development + credit + alcohol program</i> Ministry Industry and Commerce
	1700-1730		Meet w/President Joao Baptista Figueiredo Palacio Planalto
	1815		Depart for Rio - dinner on plane
	1930		Arrive Rio Copacabana Palace
	1945		Depart for Hotel
	2030-2130		Meet w/selected intellectuals " "
Nov. 13 Tues.	0815		Depart for airport
	0930	1230	Depart Rio VARIG #878 B707
	1355	1855	Arrive Quito Colon Hotel
	1600		Meet w/President Roldos Presidential Palace
	1715		Meet w/Vice President
	1845-1945		Meet w/economic team and Minister of Natural Resources, and high-ranking officials of CEPE and INECEL (to discuss energy matters) Central Bank
	2030	2000	Dinner hosted by Pres. Monetary Board, Leon Roldos, and General Manager of Central Bank, Germanico Salgado La Merced Convent
14 Wed.	0730		Depart for Ambato. Brief stop at Bank-financed school at Latacunga Car
	1030-1230		Visit Tungurahua project site--first rural development operation financed by Bank in Ecuador
	1300		Depart for Ibarra Plane
	1345		Arrive Ibarra
	1400		Lunch w/Mr. Galo Plaza at his farm, Zuleta
	1630		Depart for Quito Plane
	1700		Arrive Quito
	1830		Visit Central Tecnico, vocational school whose equipment was financed under 1st Education Credit
	2030		Dinner hosted by the President Presidential Palace
Nov. 15 Thurs.	0900-1100		Tour of Quito
	1200		Depart for Guayaquil Plane - SAN 45279
	1230		Arrive Guayaquil Continental Hotel
	1300		Lunch w/Govt. authorities and Guayaquil financial community
	1530-1730		Visit proposed Guayaquil urban development project site and Water Company's works financed under Loan 1030-EC
	1745		Visit Guayaquil Port whose improvements financed under Bank loan
	Evening		Private dinner

1607
1712-1830
1945-2000
1945-2000

Schedul

- 4 -

<u>DATE</u>	<u>TIME</u>	<u>GMT</u>		<u>REMARKS</u>
Nov. 16 Fri.	0730		Depart for Central Bank Rural Development Fund (FODERUMA) project at Guamote in Chimborazo province	Helicopter
	0830-0930		Visit Guamote project	
	0930		Depart for Guayaquil	Helicopter
	1030		Arrive Guayaquil	
	1200		Short briefing on potential of Guayas basin	
	1330	1830	Depart Guayaquil	AR342 B707
	1730	2230	Arrive Miami	
	1859	2359	Depart Miami	EA198 B727 nonstop
	2109	0209	Arrive Washington--National	

CKW
November 5, 1979

64-68	76	5
69-73	57	
74-78	154	
79-83	379	75
77	59	
78	17	
79	58	
80	31	
81	65	
82	115	

MR. MCNAMARA'S ARRIVAL STATEMENT

ECUADOR

I am delighted to be in Ecuador for the first time as President of the World Bank and am grateful to the Government for extending its hospitality to me and my colleagues. On this visit I hope to learn more about the development problems that the Ecuadorian people face and to see some projects the Bank is helping to carry out here. I also look forward to meeting with President Roldós and Government officials to discuss ways in which the Bank can help the new Administration realize its twin goals of achieving growth with a more balanced distribution of its fruits.

Ecuador and the World Bank have been partners in development for over a quarter of a century. Since 1954, the World Bank has extended 29 loans to Ecuador, amounting to US\$336 million. The Bank's lending to Ecuador was originally concentrated in the transport and power sectors, but in the last decade it has diversified into agricultural and industrial development.

In the ^{past} year ending June 30, 1979, the World Bank approved its first rural development loan to Ecuador--to support a project in the province of ^{Tungurahua} Tungurahua. I will be visiting the site of this project which will benefit some 16,000 rural families. The most recent World Bank operation was a US\$40 million loan to Ecuador's industrial sector through the development banking system.

Among other projects, the World Bank is currently considering an urban development operation in Guayaquil as well as a highways project--mainly for feeder roads--, ^{and the} a rural development project, and projects for small-scale industry and petroleum exploration and production.

The World Bank hopes to increase its assistance to Ecuador in the future. In particular, we expect to assist expansion of productive capacity in crucial areas of your economy and help improve living conditions for the rural and urban poor. We also want to continue cooperating in the strengthening of Government agencies and in providing technical assistance in order to foster Ecuador's development.

What brings us together is our mutual awareness of the needs of Ecuador's urban and rural poor and a commitment to ease their burdens. And what we learn together in Ecuador will also make the World Bank a more effective development institution in helping other countries.

ECUADOR - LIST OF GOVERNMENT OFFICIALS

Jaime ROLDOS Aguilera*
Osvaldo HURTADO Larrea*

President of the Republic
Vice President of the Republic

THE CABINET

Margarita de ARMIJOS
Fernando ASPIAZU Seminario*
Leonel CEDEÑO Rosado*
Mauricio DAVALOS Guevara*
Roberto DUNN Barreiro
Carlos FERAUD Blum
Rodrigo FIERRO Benítez
Galo GARCIA Feraud*
Martín MANOSALVAS Vaca*
Nicolás PARDUCCI
Alfredo PAREJA Diezcanseco*
Rafael RODRIGUEZ Palacios
Leon ROLDOS Aguilera*
Alejandro ROMAN
Francisco SAA Chacón
Germánico SALGADO*

Minister of Social Welfare
Minister of Finance and Public Credit
Minister of Agriculture and Livestock
Minister of Natural Resources and Energy
Minister of Government and Police
Minister of Labor and Human Resources
Minister of Public Health
Minister of Education and Culture
Minister of Industry, Trade and Integration
Attorney General
Minister of Foreign Affairs
Minister of National Defense
President of Monetary Board
General Secretary of the Government
Minister of Public Works and Communications
General Manager of Central Bank

OTHERS

Enrique AMPUERO
Jacobo BUCARAM
José CARRILLO*
José A. CARVAJAL Candell*
Pablo CONCHA Ledergerber
Rogelio CORDOVEZ Dunn*
José CORREA
Fernando COSSIO
Carlos EMANUEL*
Antonio HANNA Musse*
Marcel LANIADO de Wind*
Oscar LOOR Risco*
Rodrigo MALO Gonzales
Edgardo MARMOL Cevallos*
Galo PLAZA Lasso*
Marcelo QUEVEDO Toro*

Executive Director, INIAP (Agricultural
Research Institute)
Executive Director, INERHI (National Water
Resources Institute)
Acting Manager, EMAP-G (Guayaquil Water
Supply Company)
General Manager, CEPE (National Oil
Company)
General Manager, BEDE (State-Owned
Development Bank)
President of the Board of Directors,
Guayaquil Port Authority
President, COFIEC (Largest Private DFC)
Acting UNDP Resident Representative
Manager of the Central Bank's
Guayaquil Office and Acting Alternate
Governor for the Bank
Mayor of Guayaquil
President, Banco del Pacífico
(Ecuador's second largest commercial
bank)
Executive Director, CEDEGE (Guayas Basin
Development Study Commission)
President, CFN (State-Owned DFC)
President, BEV (State-Owned Housing Bank)
Ex-President of Ecuador and former
Secretary General of the OAS
General Manager, BNF (State-Owned
Agricultural Bank)

Francisco SWETT Morales*
Flavio TAMAYO Andrade*
Eduardo VILLARREAL*

Guayaquil Urban Project Coordinator
Tungurahua Project Unit Director
General Manager, INECEL (National Power
Company)

Asterisk denotes that a bio-sketch is provided.

SELECTED BIOGRAPHICAL SKETCHES

Jaime ROLDOS Aguilera
President of the Republic

1. A 39 year old lawyer, Mr. Roldos has vaulted in less than a year from a position of relative obscurity to that of Ecuador's most prominent politician. He is a native of Guayaquil and studied at the University of Guayaquil where he graduated first in his class.
2. Mr. Roldos has been active in politics since his college years when he was a student leader. He has been a long-time member of the Concentration of Popular Forces party (CFP) and was twice elected to Congress, in 1969 and again in 1970.
3. During the 1970s, Mr. Roldos developed a successful legal practice. He was elected President of the Association of Lawyers in Guayaquil and also served, for a time, as Director of the Department of Modern Humanities in the Ministry of Education.
4. Mr. Roldos considers himself a center-leftist. He has a reputation for keen intelligence and is a soft spoken and serious individual. His articulateness and poise during the 1978-79 electoral campaign played a major role in his landslide victory over Mr. Duran Ballen. ✓
5. President Roldos is married to Martha Bucaram --a niece of the President's former mentor and current political adversary, Mr. Assad Bucaram. Like her husband, Mrs. Roldos is a lawyer. The President frequently refers to her as his closest advisor and she takes an active interest in the social progress of her fellow Ecuadorians. The Roldoses have three children.
6. The President is an avid reader and is particularly interested in political and economic literature. He is also fond of chess and auto racing. He does not speak English.

Oswaldo HURTADO Larrea
Vice President

1. Like President Roldos, Mr. Hurtado is a young (40 years old) lawyer. He was born in the Sierra near Riobamba, an important provincial capital.
2. Mr. Hurtado has well established credentials as a left-of-center intellectual. Prior to his election as Vice President, he was a professor of political economy at Quito's Catholic University, his alma mater. He has also served as deputy dean of the school's economics faculty and as Director of its Institute for Economic Research. Mr. Hurtado has authored several books, the best known of which are "Two Superimposed Worlds" and "Political Power in Ecuador". The former deals with the problems of dualism in the country while ✓
✓
✓
✓

the latter is an ambitious and interesting socioeconomic analysis of Ecuador's power structure.

3. An intelligent, articulate and personable individual, Mr. Hurtado has taken a lively interest in development issues and in bank operations. He is slated to head the recently created National Council for Economic Development (NCED) which is expected to direct Ecuador's development effort. Additional legislation is still required to define the NCED's precise scope and function, however. Until the Congress enacts this legislation, Mr. Hurtado's power is limited.

4. The Vice President is married and has three children. He does not speak English.

Fernando ASPIAZU Seminario
Minister of Finance and Public Credit

1. The scion of a family with a well established tradition of public service, Mr. Aspiazu (age 44) was raised in Guayaquil and is considered to be one of the Costa's representatives in the Cabinet although he was born in Quito.

2. Mr. Aspiazu earned a doctorate in law at the University of Guayaquil and then went on for his masters in economics and public administration at Indiana University. At an early age (23), he became private secretary of the Minister of Education and was subsequently promoted to Undersecretary of Education.

3. After his stint in Government service, Mr. Aspiazu turned to the private sector and was the financial advisor of a large private company in Venezuela for three years. He also served as president of one of the country's largest sugar mills (Astra) and as a member of the board of directors of several private companies, some of which belong to his family. Prior to being named Finance and Public Credit Minister, he was president of Financiera Nacional S. A. and general manager of Financiera Iberoamericana S.A., two of Ecuador's most dynamic new development finance companies.

4. Mr. Aspiazu is a knowledgeable, quiet individual. He speaks English fluently.

Leonel CEDEÑO Rosado
Minister of Agriculture and Livestock

1. Mr. Cedeño, age 40, is the only representative of the politically important coastal province of Manabí in the Cabinet. Prior to his selection as Minister, he had been a CFP activist in the province.

2. Although he is an agricultural engineer and has taught tropical agriculture at Manabi's technical university, Mr. Cedeño is considered to be, technically, one of the weakest members of the Government. There are repeated rumors in Ecuador that he will be replaced as head of the key Agriculture and Livestock Ministry in a cabinet shake-up which may take place in early 1980. Mr. Cedeño does not speak English. ✓

Mauricio DAVALOS Guevara
Minister of Natural Resources and Energy

1. Born in the provincial capital of Riobamba in the Sierra, Mr. Davalos (age 35) is one of the key members of the Cabinet. ✓

2. Mr. Davalos is well trained academically. He studied law for four years in Ecuador and then earned a B.S. in economics at Northwestern University. He rounded out his studies with a masters and PhD in economics from Vanderbilt.

3. A close friend of Vice President Hurtado's and an active member of the Vice President's small Christian Democratic Party, Mr. Davalos has served as a professor of economics at Quito's Catholic University and as Director of the university's Institute for Economic Research. Until January, 1979, he also worked in the Citibank Office in Quito.

4. In recent weeks, Mr. Davalos has made a number of courageous public statements calling for a rise in the domestic prices of petroleum products. He is clearly being asked by the Roldos' administration to take the point on this issue and may wind up being sacrificed for his stand. ✓

5. Mr. Davalos is personable, articulate and energetic. He speaks fluent English.

Galo GARCIA Feraud
Minister of Education and Culture

1. Mr. Garcia was born in Guayaquil 44 years ago and earned a law degree at the University of Guayaquil. He has been a professor in several private schools in Guayaquil and at both of the city's universities. He was also private secretary to a former Minister of Education, dean of the faculty of law of the University of Guayaquil and author of the book "Women and Legislation in Ecuador".

2. Mr. Garcia does not speak English.

Martin MANOSALVAS Vaca
Minister of Industry, Trade and Integration

1. Mr. Manosalvas (age 50) is one of several political appointees in the Cabinet. He is a lawyer by training and has played a leading role in CFP politics in the past. Although he has published books on civil law in Ecuador and on the proposed establishment of a judicial system for the Andean Pact, Mr. Manosalvas has no particular expertise in the area of industrial policy. ✓

2. Mr. Manosalvas was born in Quito but practiced law for years in Guayas Province. He does not speak English.

Alfredo PAREJA Diezcanseco
Minister of Foreign Affairs

1. A distinguished elderly gentleman and historian, Mr. Pareja brings to the job of Foreign Affairs Minister a wealth of experience in the public and private sectors and in academia.

2. In the 1940s, Mr. Pareja served as a diplomat in Mexico and worked in UNRRA. In his native country, he served as a congressman (1938), with the Monetary Board (1953-60) and as a member of the Advisory Board of the Foreign Affairs Ministry (1973). He has also been active in the banking sector having served as manager for several years of two important financial institutions, La Filantropica and Banco Popular.

3. Mr. Pareja is best known for his writings --novels and articles on history and culture-- and as a university professor. He has taught at Quito's Central University and has lectured at Universities in Costa Rica, Mexico, and the U.S. He is from Guayaquil and speaks English. ✓

Leon ROLDOS Aguilera
President of Monetary Board
and Bank Governor

1. Mr. Roldos (age 36) is the younger brother of Ecuador's President and is generally considered to be the second most influential member of the Administration. He is from Guayaquil and graduated first in his class in law and social sciences at the University of Guayaquil. Prior to being named to his present position, Mr. Roldos provided legal advice to several important Ecuadorian banks and to most of the country's DFCs. He was also dean of the Faculty of Law at Rocafuerte University in Guayaquil. ✓

2. Because of his kinship with the President, Mr. Roldos has taken on a key troubleshooting role within the Government which goes much beyond his Monetary Board responsibilities. His outspokenness and penchant for involving himself in important issues are rumored to have caused resentment among other influential Government officials, however, and this could create tensions within the Administration. ✓

3. Because Finance Minister Aspiazu was unable to attend the Belgrade Meetings, Mr. Leon Roldos was named Bank Governor for Ecuador on September 21 in place of Mr. Aspiazu. It is unclear whether this is a permanent arrangement or whether the Finance Minister will, once again, be named Bank Governor. In any event, Mr. Roldos has taken a personal interest in Bank operations and in coordinating Mr. McNamara's visit to Ecuador. He will personally accompany Mr. McNamara to most of the events during his 3 day stay in Ecuador.

4. Mr. Roldos is intelligent, pragmatic and dynamic. His spoken English is, however, limited.

Germánico SALGADO
General Manager of Central Bank

1. Born in Quito, Mr. Salgado (age 54) is a well known figure in the international development community. He holds degrees in law and social sciences from Quito's National University and in economics from the Central University in Madrid. He was also a participant in an early EDI course. ✓

2. Mr. Salgado has held a number of important positions including dean of the school of economic sciences at the National University in Quito, Technical Director of Ecuador's Planning Board and Director of the Department of Economic and Social Affairs at the OAS between 1964 and 1969. He was succeeded in this position by Mr. Ardito Barletta. ✓ ✓

3. In the early sixties, Mr. Salgado was a member of the Committee of Experts of the Alliance for Progress. From 1969 to 1976, he also served on the Board of Directors of the Andean Pact. Prior to assuming his present duties, Mr. Salgado was the representative in Ecuador of the Andean Development Corporation (CAF). ✓

4. Mr. Salgado has a friendly and open personality. He speaks fluent English.

José CARRILLO
Acting Manager, Guayaquil Water Supply Company (EMAP-G)

1. This young (31) civil engineer from Guayaquil was appointed acting manager of EMAP-G when the previous manager resigned in early 1979. Prior to that, he had worked for seven years as an engineer in the private sector and had served as a member of the Board of Directors of the EMAP-G. Mr. Carrillo neither speaks nor understands English.

José A. CARVAJAL Candell
General Manager of the Ecuadorian Petroleum Company (CEPE)

1. A 37 year old native of Guayaquil, Mr. Carvajal studied industrial engineering at Munich's Polytechnical Institute. He has considerable experience in systems analysis and worked in this area with several German companies as well as with National Cash Register in Ecuador.
2. Between 1972 and 1974, Mr. Carvajal was Director of the Electronic Processing Department at the University of Guayaquil. His knowledge of English is limited.

Rogelio CORDOVEZ Dunn
President of the Board of Directors of the
Guayaquil Port Authority

1. Mr. Cordovez Dunn was recently appointed President of the Port Authority's Board of Directors. He is a successful and respected Guayaquil businessman. Mr. Cordovez understands but does not speak English.

Carlos Julio EMANUEL
Manager of the Central Bank's Guayaquil Office
and Acting Alternate Governor for the Bank

1. Mr. Emanuel, a bright young technocrat from Guayaquil, was a leading candidate for the job of Finance and Public Credit Minister which eventually went to Mr. Aspiazu. He is a well trained economist with a PhD from the University of North Carolina and five years of previous work experience at the IMF. Mr. Emanuel is Acting Alternate Governor for the Bank and speaks excellent English. ✓

Antonio HANNA Musse
Mayor of Guayaquil

1. This former television journalist was elected mayor in July 1978 and took office the following October. His first year in office has been a chaotic one, however, in part because Mr. Hanna brought few administrative skills to the notoriously disorganized and weak municipal government. The Mayor is also a bitter political foe of CFP strong man Assad Bucaram and he has had to concentrate much of his energy to simply staying in office in the face of strong attempts by Mr. Bucaram to have him dismissed by the Municipal Council. ✓

2. The media-conscious Mr. Hanna has made an attempt to consolidate his popular support by appearing to bring wide ranging improvements to Guayaquil's poor, including slum upgrading and massive housing programs. The limited financial resources of the Municipality, however, have sharply constrained the Mayor's efforts. In this regard, the proposed Guayaquil urban development project not only serves the shelter needs of Guayaquil's population but is also a political plum with which the Mayor keenly wishes to be identified. ✓

3. Mayor Hanna --like Mr. Bucaram, a politician of Lebanese extraction-- does not have any university training. He has, however, taken courses in journalism and speaks some English. ✓

Marcel LANIADO de Wind
President of the Banco del Pacifico

1. Mr. Laniado is the President of Banco del Pacifico, Ecuador's fastest growing and second largest commercial bank with total assets of about US\$285 million. Laniado is an enlightened businessman who master-minded the Banco del Pacifico's innovative small enterprise credit program. His bank is expected to play an important role providing credit to small entrepreneurs and artisans under the proposed Guayaquil urban development project. ✓

Oscar LOOR Risco
Executive Director of the Guayas Basin Development Study Commission (CEDEGE)

1. Mr. Loor, a 50 year old native of Manabi province who moved to Guayaquil years ago, is one of the most important men in the Costa. He is the chief executive officer of CEDEGE and is one of the region's principal boosters. ✓

2. Mr. Loor's main concern is to line up financing for the Daule-Peripa project, an ambitious multisectoral scheme which is discussed in Section F5 of this brief. Mr. Loor is an intelligent politician who has held a number of senior Government positions in the past including that of President of the Planning Board. He speaks some English.

Edgardo MARMOL Cevallos
President of the Ecuadorian Housing Bank (BEV)

1. This civil engineer was one of the founders of Ecuador's savings and loan system and has been involved in private real estate development for the last nine years. A Guayaquil resident, Mr. Marmol was born in the small coastal province of Los Rios and received his engineering degree from the University of Guayaquil.

2. Mr. Marmol served as technical director of the Housing Bank's Guayaquil Office in the mid-1960s and as Vice Minister of Public Works in 1968. He was a member of the Ecuadorian team which recently negotiated the proposed Guayaquil urban development project and can be expected to join Mr. McNamara during his visit to Guayaquil's slums. Mr. Marmol is keenly interested in developing, with Bank financing, a nationwide low income housing scheme. Bank staff have informed him that we would be interested in considering the project once it has been prepared. ✓

3. In his mid forties, Mr. Marmol reads and understands some English.

Galo PLAZA Lasso

1. Mr. Plaza is Ecuador's elder statesman par excellence. He served as President of Ecuador from 1948 to 1952 and is one of only three democratically elected presidents to have served out his term in the 20th century. Mr. Plaza was also Secretary General of the OAS from 1969 to 1974.

2. A member of one of Ecuador's most aristocratic and wealthiest families, Mr. Plaza is now retired and spends much of his time at his farm, Zuleta, located in the Sierra north of Quito. Mr. Plaza is credited, however, with having played a major role in smoothing Ecuador's recent transition to democratic rule by having thrown his personal prestige behind the transition. ✓

3. Mr. Plaza is a personable, articulate and intelligent person. He speaks English fluently.

Marcelo QUEVEDO Toro

General Manager of the National Agricultural Bank (BNF)

1. Mr. Quevedo Toro is a 44 year old agronomist specializing in dairy and beef cattle ranching. He obtained a bachelor's degree from Mississippi State University and earned a masters at Nevada State.

2. After having worked as a "resident expert" in several ranch projects financed by the IDB in Mexico and Bolivia, Mr. Quevedo Toro returned to Ecuador to work in the Ecuador Office of the Andean Development Corporation (CAF). During the recent political campaign, Mr. Quevedo Toro was in charge of President Roldos' publicity in the Sierra. He was also named Chairman of the transition team charged with preparing the Government's strategy for the agricultural sector. Mr. Quevedo Toro speaks fluent English. ✓

Francisco SWETT Morales
Economic Counselor for the Central Bank and
Coordinator of the Guayaquil Urban Development Project

1. One of Ecuador's most prominent young technocrats, Mr. Swett (age 32) earned his B.A. in economics from Wesleyan University and his MPA at Princeton's Woodrow Wilson School. Between 1974 and 1978, Mr. Swett worked as consultant for several international organizations, including the World Bank, primarily in the area of education planning. ✓

2. In 1978, Mr. Swett was named head of the National Planning Board (JUNAPLA). After the change of Government in August, 1979, Mr. Swett returned to Guayaquil, his hometown, to serve as an economic advisor of the Central Bank. A month later, however, he was named by the new Government to coordinate the proposed Guayaquil urban development project for which the Central Bank serves as the Government's financial agent. In keeping with his new responsibilities, Mr. Swett was de facto head of the Ecuadorian Delegation which recently negotiated the loan.

3. A dynamic person with a straightforward, cordial manner, Francisco Swett speaks excellent English.

Flavio TAMAYO Andrade
Project Director of the Tungurahua
Rural Development Project

1. Mr. Tamayo, an economist with several years of experience in the Ministry of Agriculture and Livestock, has been involved in preparation of the Tungurahua rural development project practically from its inception. In fact, his thesis at Quito's Catholic University dealt with the rural development possibilities of the project area.

2. Mr. Tamayo, age 34, was born in the Sierra province of Imbabura. He has worked in the past for the Ministry of Labor and in a private automobile factory in Bogota, Colombia. He was a member of the Ecuadorian team which negotiated the Tungurahua rural development project in late 1978 but does not speak English.

Eduardo VILLAREAL
General Manager of the National Power Company (INECEL)

1. Prior to being appointed to INECEL's highest position in August 1979, this 40 year old electrical engineer was deputy manager of one of Ecuador's largest consulting firms, Integral. A graduate of Quito's Polytechnical Institute, Mr. Villareal has done post-graduate work in advanced hydraulics. He also worked for several years in the National Irrigation Institute (INERHI).

2. Serious, direct, keenly intelligent and pleasant, Mr. Villareal is knowledgeable about the country's power sector needs and problems. His appointment to head what was already one of Ecuador's best run public enterprises bodes well for the sector's continued development.

3. Mr. Villareal has a limited knowledge of English.

C

TOPICS FOR DISCUSSION

Project Execution Problems

1. Ecuador has traditionally been one of the most difficult borrowers in the region for the Bank and for most other financial institutions. This has been mainly due to the country's inability to prepare and subsequently carry out projects. Virtually all our Ecuadorian operations --with the notable exception of our DFC and traditional infrastructure projects-- experience lengthy delays at the preparation stage and during project execution. Ecuador is regularly near the top of the list in the number of regional problem projects, and the amount of Bank funds committed but undisbursed to the country currently stands at about US\$160 million for 15 projects. Disbursements, however, picked up in FY79, when they reached US\$35 million, more than twice the amount in FY78. ✓
2. Although a shortage of counterpart funds has recently delayed some projects, the weakness of the country's public sector has been principally responsible for Ecuador's disappointing performance in project preparation and execution. Unlike some of the Bank Group's least developed members, Ecuador has an adequate and growing pool of trained managers and technical personnel. Most of these are, however, attracted to the country's dynamic private sector, where material rewards are highest. Managerial talent in the Government and in public sector autonomous agencies is, consequently, spread thin. To try to compensate for this, the Bank and other lenders have, over the years, devoted a great deal of staff time to project preparation and supervision. More recently, to assist the Government in developing bankable projects in agriculture and other priority sectors, the Bank has financed two technical assistance projects in Ecuador. These projects are themselves moving slowly, however, due to weaknesses in the agencies responsible for their execution and owing to delays in the hiring of consultants and in the initiation of pre-investment studies.
3. During the last 18 months of the previous Government, Bank staff worked closely with Ecuadorian officials to clear up execution problems. Missions traveled frequently to the country and a disbursements procedures training seminar was held in Quito with the participation of all major executing agencies. This combined Bank/Government effort paid off, as indicated above, in the form of improved disbursements in FY78.
4. In the dialogue with the current Administration, Bank staff have continued to stress the need for improved project preparation and implementation. This was a major theme in Mr. Ardito Barletta's meeting with then President-elect Roldos in Guayaquil last June and has continued to figure prominently in subsequent discussions between Bank staff and Government officials. The Bank has provided Government officials with detailed briefs ✓ ✓

on all ongoing projects. These have highlighted serious problems and have suggested solutions to these. In the same spirit, we have emphasized that we are open to considering modifications in the design of ongoing projects, which the Government might propose to better tailor these to the country's present needs and to speed up their execution.

5. During his visit to Ecuador, Mr. McNamara might wish to point out that improving the preparation and execution of projects is a major challenge facing both the Government and the Bank in Ecuador. He may wish to reiterate that the Bank is keen on cooperating with the new Administration to improve upon past performance in this vital area, particularly in the case of those projects which are stagnating. He might also note that it would be difficult for us to justify a major increase in our future lending to the country unless the pace of project execution speeds up.

6. As an illustration of the project execution problems encountered in Ecuador, he may wish to cite the Guayaquil and Guayas Province Water Supply Project (Loan 1030-EC), which is already about four years behind schedule and which is now further threatened by a severe shortage of counterpart funds. A more detailed discussion of this problem project is contained in Section F⁴ of this brief.

Future Lending

7. President Roldos and senior government officials will be interested in discussing future Bank lending to Ecuador. In this regard, Mr. McNamara may wish to explain that we hope to develop a lending program which should build up to three projects per year and to commitments of about US\$100 million annually. Our proposed program for the next two years, which has been submitted in detail to the new Government, blends infrastructure development with support for productive activities and projects to improve living conditions for the country's urban and rural poor. The individual projects would also be designed to provide much-needed technical assistance and institution building to Ecuador. Finally, the program includes projects --such as our proposed lending for petroleum development-- which would support the Bank's policy dialogue on important macroeconomic issues.

8. As agreed at the Belgrade meetings, a Bank programming mission will visit Ecuador, probably in January, to firm up a project pipeline for the next few years. Meanwhile the Bank will continue to work on the following seven projects which we hope to present to the Board in the next 12 to 18 months:

- (i) Guayaquil urban development project (US\$31 million;
Board action: late CY79);

- (ii) sixth highway project, mainly for feeder roads (US\$40 million; Board action: mid CY80);
- (iii) small scale industry project (US\$25 million; Board action: mid CY80);
- (iv) second rural development project (US\$25 million; Board action: FY81);
- (v) first petroleum project (contents, timing and amount will depend on preparatory work done by CEPE, the national petroleum company, and on action to increase the domestic price of petroleum products. One alternative would be to make a single large loan of, say, US\$70 million in FY82S. Alternatively, the project could be split into two with a smaller engineering-cum-exploration loan of about US\$40 million before the end of CY80);
- (vi) Manta fishing port project (US\$10 million; Board action: early CY81); and
- (vii) interconnection project of the National Power Company (INECEL) (US\$50-US\$60 million; Board action: early CY81).

A brief description of each of these projects is contained in Section G4 of this brief.

9. As noted earlier, to deliver on our proposed lending goal, the new Government will have to step up aggressively project preparation efforts and bring about a major improvement in project execution and disbursements.

Consultative Group Meeting

10. The previous Government expressed its intention to convene a consultative group meeting (CG) on several occasions and had requested Bank support in preparing it. During a meeting with Bank staff in June 1979 before he took office, Vice President Hurtado also expressed interest in holding a CG. This interest was reiterated by Mr. Leon Roldos, the President's brother, when he visited the Bank in July and by several senior officials during a Bank operational visit to Quito in late August. The CG idea also came up briefly in Belgrade, where it was agreed that the initiative needed careful thought and that further discussion should be postponed until the time of the proposed programming mission. Should Government officials raise this issue during Mr. McNamara's visit, he may wish to say that we welcome this initiative and are prepared to work with the Government's economic team on mounting a CG at a mutually convenient time. The economic report published in June 1979 could serve as a background paper for the meeting. However, the Government would first have to update the project list to take into account its own priorities.

Resident Office in Quito

11. In the past, Ecuadorian officials have made repeated requests that the Bank open a resident office in Quito to facilitate communications between Ecuador and the Bank, help sort out daily problems in project preparation and execution and speed up disbursements. The issue came up briefly at the Annual Meetings. Should it be raised, once again, during Mr. McNamara's visit to Ecuador, he may wish to state that the Bank is prepared to review the office's establishment but that no firm commitment can be made because of the Bank's tight budgetary constraints. Because of these financial limitations, there are few field offices in Latin America. Pending completion of the review, the Bank's Ecuador team would continue to travel frequently to the country. As was noted in paragraph three above, the stepped-up activity of headquarter's staff during the past 18 months has already yielded some handsome returns.

12. The Government, for its part, could consider following up closely the preparation and implementation of development projects. This could, perhaps, be achieved by designating a Government team of aggressive "project expeditors". This idea was mentioned to President Roldos and Vice President Hurtado in June and, once again, in August. Both reacted favorably to it. Moreover, the idea is already being implemented in the proposed Guayaquil urban development project where Francisco Swett, the able and dynamic former head of the Planning Board (JUNAPLA), has been designated by the new Government to act as project coordinator. One final point which Mr. McNamara might want to make on this subject is that Mr. Weiner agreed in Belgrade to a request made by Mr. Salgado, General Manager of the Central Bank, to visit Quito later this year or early in 1980 to assist the Government in its effort to identify and overcome the main bottlenecks in Ecuador's public administration.

Government Development Strategy

13. Mr. McNamara may wish to inquire into the economic policies which the new Administration is now considering and intends to follow. In addition to seeking the Government's views with regard to pricing and investment policy in the petroleum sector (see paragraphs 14 to 19 below) he may wish to get the Ecuadorians' views on agricultural and industrial policy and on how Ecuador intends to maintain economic growth while at the same time distributing more widely than in the past the benefits of development. He might also inquire into the new institutional arrangements which will have an impact on the formulation of economic policy. The future roles of the Vicepresidency, the Planning Board (JUNAPLA) and the National Development Council in managing the economy are all of particular interest to the Bank. Information on the recently created Ecuadorian Development Bank, and its function, would also be useful.


Petroleum Sector Policies

14. Ecuador's rapid growth during the 70s has been mainly fueled by the entry into production of oil fields discovered in the country's Oriente region. As Ecuador stands on the threshold of the eighties, however, its petroleum sector is faced by two major problems: (i) stagnating production and declining reserves; and (ii) rapidly growing domestic consumption of petroleum products due to their low prices.

15. Following a period of aggressive exploratory drilling by Texaco and Gulf in the late 60s and early 70s, exploration fell off sharply. As a result, Ecuador's production of crude has stagnated at about 200,000 barrels per day and its proven reserves have declined from about 1.5 billion barrels in 1974 to an estimated 1.1 billion barrels today. At the current rate of exploitation and with no new discoveries, these reserves would be exhausted in less than 15 years.

16. The previous Government belatedly took action to step up exploration. Aware that CEPE was too weak financially, administratively and technically to launch a major exploratory program by itself, the Government introduced changes in the hydrocarbons law in 1978 to encourage exploration in Ecuador by foreign oil companies. These changes have, however, so far failed to entice foreign firms into renewed drilling --perhaps because of the fluid political situation the country faced in 1978/79. As of this writing only Texaco is actively engaged in exploratory activities in the Oriente. It does so as the minority partner of a consortium in which CEPE has 63 percent of the shares.

17. The second major problem facing the sector stems from the low domestic price of petroleum products in Ecuador --perhaps the single greatest distortion in the economy. Currently, a gallon of gasoline in the country sells for only 18¢. This price has not changed since 1975 and is one of the world's lowest. As the result of the low price structure, domestic consumption of petroleum products has been increasing at 16 percent per annum. Today, about a third of Ecuador's petroleum is consumed domestically, up from 23 percent in 1975. If present trends continue, Ecuador may become a net importer of petroleum by the mid-1980s.

18. The difference between the current world price for petroleum and Ecuador's internal one represents an implicit subsidy to petroleum consumers equivalent to about 5.5 percent of GDP. The subsidy is putting a growing strain not only on CEPE's finances but also on those of the Central Government. The Roldos Administration is aware of the need to move towards more rational pricing and several Government officials, including Natural Resources Minister Davalos, have publicly stated that prices should be hiked. Raising prices is, however, politically sensitive. The military government enacted modest increases several years ago but was forced to roll back prices after rioting broke out in Quito and several other large cities. President Roldos is, therefore, moving cautiously on this issue. 

19. Against this background, Mr. McNamara may wish to inquire how the Government proposes to stimulate exploration and how and when it will tackle the pricing problem. In this regard, he might wish to mention that the Bank is prepared to provide financing for exploration, secondary recovery, rehabilitation of existing wells and other petroleum sector investments. He might add, however, that the Bank would find it impossible to justify lending for the petroleum sector to our Board without a package of measures aimed at rendering sector policies more coherent and effective, including the rationalization of domestic pricing.

The Daule-Peripa Project

20. The IDB's Board is currently considering a US\$165 million loan to help finance the first phase of the Daule-Peripa project. This is an ambitious and costly multi-faceted scheme which entails construction of a large dam in the Guayas basin, mainly to control flooding during the rainy season, to permit irrigation and to generate hydropower. A detailed description of the project as well as a discussion of the Guayas basin's potential is contained in Section F5 of the brief.

21. The U.S. Executive Director at IDB, Mr. Ralph Dungan, has serious reservations about the loan and may oppose it when it is put to a vote in late October/early November. Several other Executive Directors from Part I countries share Mr. Dungan's concern. His opposition would effectively veto the US\$70 million in highly concessionary FSO funds which constitute a major portion of the IDB's loan package. Mr. Dungan's reservations stem from the first phase's low rate of return, 8.5 percent, and from the large investments the project would require over time --estimated at over US\$650 million. He also appears reluctant to commit such a large amount of FSO money to a country at Ecuador's stage of development.

22. In expressing his reservations about the loan, Mr. Dungan is said to have stated, inter alia, that the Bank considers the Daule-Peripa project to be unjustified and that the Government had presented it to us for financing but that we had turned it down. He has also pointed out that our June 1979 economic report --which contains a ranking of public investment projects-- puts Daule-Peripa into the lowest priority category. Bank staff have informally learned that these remarks have caused some members of the powerful Guayaquil group backing the project to conclude that the Bank is actively lobbying against Daule-Peripa. Although steps have been taken to dispell this misconception, this point may still be raised during Mr. McNamara's visit to Ecuador.

23. Should it come up, Mr. McNamara may wish to assure the Ecuadorian authorities that the Bank has not worked against Daule-Peripa. The project was never formally presented to the Bank for financing. Consequently, we have never done an in-depth appraisal of its merits. When questioned on the project

by U.S. Treasury personnel in recent weeks, Bank staff have always indicated that their knowledge of the project was too superficial to permit meaningful comment and have suggested that queries on Daule-Peripa should be addressed to IDB personnel. While it is true that the 1979 economic report put Daule-Peripa into the third and lowest priority ranking, the entire rating system is heavily "caveated" as a tentative exercise based on a necessarily quick review of Ecuador's investment needs. Moreover, the economic report was officially cleared by the earlier Government.

24. Mr. McNamara may also wish to add that the Bank is generally interested in supporting the Guayas basin's development. Over US\$2 million is available for agricultural preinvestment studies in the basin under Loan 1230-EC which was approved in March, 1976. Moreover, the roads project which the Bank expects to appraise in November will concentrate on feeder road development in the basin provinces of Guayas and Los Rios, as well as in the province of El Oro.

THE ANDEAN GROUP

1. Bolivia, Colombia, Chile, Ecuador and Peru signed the Treaty of Cartagena (Colombia) in May 1969 establishing the economic union known as the Andean Group. Venezuela joined the Group in 1973 and Chile withdrew from it in 1976. The Andean Group's main objectives were: (a) to gain a negotiating power both within LAFTA (Latin America Free Trade Association, created in 1960) and vis-a-vis countries and blocs of countries outside Latin America; (b) to establish conditions for the creation of a common market through a balanced complementary economic development; and (c) to accelerate growth of the integrated group.
2. To generate faster growth, the strategy originally designed and at least partly followed consisted in accelerating industrialization through import substitution. Capital intensive and large scale processes --such as production of steel, capital goods, automobiles, petrochemicals-- were emphasized. This called for both high protection and a broader market. The geographical location of these "integration" industries was to be distributed so that their benefits would be spread around within the Region. Since all Andean Group countries did not enjoy comparable levels of development, however, a special treatment was to be applied to Bolivia and Ecuador, the less developed members of the Group.
3. To implement the above political, technical and financial institutions were created. The Political Committee decides on all issues, except those of a clearly administrative and financial character. The Group created a Secretariat (Junta) which makes technical proposals to the Committee. Finally, the Andean Development Corporation (CAF) finances some industrial projects. The Junta is located in Lima and CAF is headquartered in Caracas.
4. The main achievements of the Andean Group have been: (a) the regional distribution of a number of basic industries; (b) establishment of regulations to give a common treatment to foreign capital; and (c) establishment of a common external tariff.
5. Distribution of new investments has been decided for the petrochemical, machinery and automobile industries. This has been a slow process, however, and nothing has yet been decided for a number of industries. Some of the investments which Ecuador expects to undertake within the Andean Group's framework are doubtful because of their high capital intensity, low use of domestic raw materials, limited market for the final products and uncertain export possibilities outside the Group. The large investments being contemplated for "integration" industries are not consistent with the broad goals of employment generation and better distribution of income. The Bank's Economic Report issued in June 1979, drew attention to this fact.

6. Although the Andean Group's success in economic integration has been modest, its member countries are playing a unified political role. The Group acted in unison on the Panama Canal Treaty issue and, more recently, in supporting the change of Government in Nicaragua. Finally, the Group has been lobbying strongly against trade barriers raised by the U.S. and the EEC.

7. A table giving indicators for the Andean Group is attached.

ANDEAN FACT INDICATORS

	Population		Area (thous. square km)	GNP		GNP Per Capita		Exports		Imports	
	1977 (thous.)	Growth 1970-77 (% p.a.)		1977 (US\$ million)	Growth 1/ 1970-77 (% p.a.)	1977 (US\$ million)	Growth 1/ 1970-77 (% p.a.)	1977 (US\$ million)	Growth 2/ 1970-77 (% p.a.)	1977 (US\$ million)	Growth 2/ 1970-77 (% p.a.)
VENEZUELA	13,500	3.1	912	35,910	5.7	2,660	2.5	9,548	- 10.5	10,353	14.0
COLOMBIA	24,600	2.8	1,139	17,712	6.4	720	3.5	2,302	- 1.2	1,563	- 0.8
ECUADOR	7,300	3.5	284	5,767	9.2	790	5.5	1,218	9.0	1,508	12.3
PERU	16,400	3.0	1,285	13,776	4.6	840	1.6	1,564	- 4.4	1,911	4.8
BOLIVIA	5,200	2.7	1,099	3,276	6.0	630	3.2	641	3.5	618	11.5
TOTAL	<u>67,000</u>		<u>4,719</u>	<u>76,441</u>		<u>1,141</u>		<u>15,273</u>		<u>15,953</u>	
<u>Memorandum Item:</u>											
BRAZIL	116,100	2.8	8,512	157,896	9.8	1,360	6.8	12,054	6.5	13,229	7.9

Source: The World Bank, World Development Report, 1979 August, 1979.

- 1/ GDP was used.
2/ In real terms.

ECONOMIC SITUATION

I. General Background

1. Ecuador is still, despite its considerable natural resources, one of the less developed countries in Latin America. Among the ten major South American countries, it ranks seventh in GNP per capita.

2. Its rich natural resources consist largely of a wide variety of climates and soils as well as petroleum, which provide the productive base for numerous agricultural crops, livestock, forestry and oil production. The Coastal Region, with its rainy tropical climate and fertile soils, is suited for most tropical and semitropical products, as well as for cattle ranching. The Sierra Region with its diverse altitudes is suited for most temperate crops and livestock raising. The Oriente Region, largely unexplored and undeveloped, is believed to have an important agricultural potential. It has also recently attained economic prominence through the discovery of considerable petroleum deposits. Finally, lying at the confluence of the warm Equatorial Current and the cold Humboldt Current, Ecuador's off shore waters are rich in marine resources.

3. The development of Ecuador has been based essentially on the exploitation of natural resources. In the 1950s and 60s, economic growth --about 5 percent per annum-- has stemmed almost exclusively from the expansion of agricultural export crops: first cacao, then coffee and more recently bananas. In the 70s, petroleum exports have replaced in importance the agricultural exports of the previous period and have given, so far, a strong push to the economy by raising the average annual growth rate to 8.3 percent between 1970 and 1978.

4. During the last decade, only Brazil in South America experienced a higher growth rate than Ecuador. But the benefits of this growth have been highly concentrated in Ecuador and large segments of its population have remained at the subsistence level.

5. Ecuador's development has taken place in a framework of strong regionalism and protracted political instability. Both factors, which appear in other countries of the continent, have been particularly acute in Ecuador and have often led to violent confrontations.

II. The 70s

(i) Macroeconomic Aspects

6. After a long period of moderate and agriculture-led growth, the picture

of economic development changed dramatically in the 70s. During 1970-78, economic growth accelerated to 8.3 per annum from 5 percent in the 50s and 60s, boosted by the exploitation of oil resources from 1972 onwards and by recurrent hikes in its price. The economy was carried on a wave of steeply increased public spending, buoyant optimism of private investors, the disappearance of foreign exchange and savings constraints and the spillover into domestic demand of the sudden increase in income. All economic sectors expanded rapidly, including agriculture, which grew by 4.5 percent per year during that period.

7. Domestic savings increased more rapidly than domestic expenditures and the foreign resource balance moved from a strongly negative level of -8.4 percent of GDP in 1971 to a positive level of 5.2 percent of GDP two years later. Even though the volume of petroleum exports, having attained

DOMESTIC SAVING AND INVESTMENT, 1950-78

(as percentage of GDP; in current prices)

	<u>1950-68</u>	<u>1968-73</u>	<u>1973-78</u>
Gross Domestic Investment	14.6	20.6	25.7
External Saving	- .4	3.4	-0.8
Domestic Saving	15.0	17.2	26.5
Public Saving	3.7	2.7	7.1
Private Saving	11.3	14.5	19.4

its peak in 1973 declined by almost one-third as its production fell and domestic consumption rose, the repercussions of this for the balance of payments was less damaging as the export prices of oil and of some traditional exports increases helped to compensate for this decline. The terms of trade were highly favorable to Ecuador and are calculated to have added the equivalent of an average of 3 percent of GDP per year to foreign exchange income.

8. While the major traps for suddenly rich countries - such as high rates of inflation, large and inefficient industrial concerns and acute bottlenecks in infrastructure - have been avoided, the development process in Ecuador was less than optimal. A number of findings could be quoted in support of this statement. Firstly, the growth has not been of the sort which could have contributed to develop an export base other than oil and traditional agriculture.

9. Secondly, the financing of development has been excessively dependent on revenues from oil. The private sector has relied strongly on tax exemptions and collection of non-petroleum revenues has slackened, and they decreased in real terms as a source for financing public expenditures.

ECONOMIC INDICATORS FOR ECUADOR

	Average <u>1970-76</u>	<u>1977</u>	<u>1978</u>	<u>1979 a)</u>	<u>1980 a)</u>
					(Annual rate of growth)
GDP	8.9	7.6	5.3	5.0	4.9
Inflation	12.5	12.3	10.8	11.0	15.0

(As percentage of GDP)

Balance of Trade

Exports (inc. NFS)	23.6	27.2	23.6	23.4	23.3
Imports (inc. NFS)	24.2	30.7	24.6	24.2	23.8

	Average <u>1970-76</u>	<u>1977</u>	<u>1978</u>	<u>1979 a)</u>	<u>1980 a)</u>
<u>Public Sector</u>					
Current Revenues	20.2	17.8	23.1	23.4	21.4
Capital Revenues	1.4	1.0	0.2	0.2	0.2
Current Expenditure	13.0	14.1	20.1	19.9	16.1
Invest. Expenditure	9.8	8.8	10.5	11.4	9.9
Deficit/surplus	- 1.2	- 4.1	- 7.3	- 7.7	- 4.4

a) Estimates

Sources: The World Bank. Ecuador - Development Problems and Prospects. Special Report. July 1979.

Ministerio de Finanzas, Oficina Nacional de Presupuesto.
Situación Financiera del Sector Público.

Banco Central del Ecuador and Junta Nacional de Planificación y Coordinación. Previsiones de la Actividad Económica, August 1979.

③
10. Thirdly, the benefits of the accelerated economic growth have not been distributed evenly. Although all social indicators have improved, they still bear witness to acute social injustice, reflecting flagrantly unequal distribution of income, especially in the rural areas and a deterioration over time of the relative income share received by the poorest urban 20 percent of population.

11. Fourthly, the effectiveness of the services of public administration lagged behind the requirements of a rapidly growing economy.

12. On the whole, the country's economic policies have been shaped by resource availability, a short-term phenomenon, instead of being geared to development priorities, a long-term consideration.

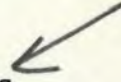
13. The easy availability of oil revenues did not unduly distort the structure of growth but it affected market signals and value relationships. The policy framework which resulted could affect negatively the future growth. In particular, the exchange rate has been slowly losing its significance as an export incentive and as a yardstick for efficient import substitution. During 1971-77 period, the index of consumer prices in Ecuador has grown much more rapidly - by 45 percent for the entire period - than the comparable U.S. index, while the dollar exchange rate moved up by only 2 percent. The likely effects on exports of the resulting decline in the real exchange rate have been compounded by incentives given to private sector through generous tax exemptions, subsidies, promotion laws, import tariffs which have hindered the transformation of agro-products and the production of manufactured goods of low-to-medium complexity. Therefore, non-oil exports were discouraged. The volume of the nine main non-oil commodities or commodity-based products exported by Ecuador (bananas, coffee, cacao, fish, timber, sugar, processed coffee, processed cacao, processed fish) increased by only 2 percent per annum between 1973 and 1977.

14. At the same time, imports have become increasingly cheap compared with domestic prices. This, combined with investment incentives and low domestic oil prices, has turned the import-substitution process towards the capital-intensive forms of production and resulted in a steep increase of imports of equipment and intermediate goods. Imported equipment and intermediates have accounted for 94 percent and 80 percent respectively of all inputs used by industry.

(ii) Social Aspects

15. Despite the rapid economic growth which led to the present relatively high average per capita income level, much of the Ecuadorian population continues to live in poverty. In 1975, the average annual per capita income of the poorest 25 percent of urban dwellers represented less than one-fifth of the country average per capita income. Forty two percent of the rural population had no piped water, 88 percent had no electricity and 87 percent were without sewerage facilities. While open unemployment is only about three percent of the country's labor force, underemployment is estimated to be as high as 30 percent.

16. Ownership of land and other productive resources is highly concentrated, limiting access of the poor to income-producing assets. Farms of less than five hectares accounted for 75 percent of the number of all farms, but held only 11 percent of all arable land, compared to farms exceeding 50 hectares, which held 61 percent of total land. While the agrarian reform in

Ecuador dates back to 1964, only about one-seventh of the land distribution planned for the past period was carried out. Also and perhaps more importantly, modern agricultural methods used by most of the large farms made few inroads into smaller farms. As a result, the productivity per hectare of farms above 10 ha is, compared to that of smaller farms, 67 percent higher in the production of wheat, 63 percent in the production of rice and 98 percent in the production of corn. 

17. The high rate of population growth, the highest in South America, although falling fractionally - 3.4 percent in 1974-79 against 3.5 percent in 1970-74 - remains a serious impediment to the solution of underemployment and poverty.

18. During the past decades - and in particular during the years following the beginnings of oil exploitation (1972) and the increase of petroleum export prices (1973) - an important urban middle class has emerged. It is composed mainly of the small entrepreneurs, civil servants - who account for over 10 percent of urban employment - and of employees of the modern sectors. This urban middle class has been growing in size and in relative income and has been the major beneficiary of recent economic growth.

19. The urbanization process, reflecting a massive immigration - the share of urban population in total population increased from 28.5 percent in 1950 to 41.6 percent in 1975 - has resulted in a growing importance of those exposed to change, which has been much more rapid in the cities than in rural areas. A rapid increase in schooling has taken place everywhere, including the rural areas. The general level of nutrition, while still inadequate, has improved; recent studies indicate that the caloric intake is 14 percent below the recommended level; it was 24 percent below it only a decade before. The protein gap remained substantial, the intake 40 percent below the theoretically required.

20. The economy and society of Ecuador suffer from a pronounced dualistic nature. The indigenous population of Ecuador accounts for over one-third of total population, and it is in this group, settled predominantly in rural areas, as well as within the marginal urban population that poverty is most deeply anchored. This population has a lower average level of productivity and benefits considerably less from basic infrastructure - education, public utilities, roads - than other segments of the population. Furthermore, the pattern of development did not create enough employment opportunities needed to absorb the growing urban labor force, part of which is underemployed. The informal sector, which includes the underemployed, represented in mid-70s over 50 percent of the total urban employment.

(iii) Sectoral Aspects

21. Three sectors most vital to Ecuador's future are agriculture, industry, and petroleum. Agriculture accounted for 20 percent of GDP in 1978, a decline from 28 percent in 1970. The agricultural sector has been growing by 4.5

percent during 1970-78. On the whole and to the extent that statistics of this sector are reliable, growth of the agricultural sector could be considered satisfactory, especially when compared to other countries. However, Ecuador's agricultural potential is also higher than in other countries, especially taking into account the reserves of unexploited arable land and water resources. With growth of agricultural production lagging somewhat behind overall growth of the private consumption, demand for food has been increasingly satisfied by imports.

22. Ecuadorian agriculture was --and still is-- constrained by inadequate infrastructure, limited farm-level technical guidance, substantial price fluctuations, erratic credit availability, marketing shortcomings, poor management at farm level and uncertainties with regard to the future of the land redistribution program. All these hampered farmers' investment intentions and delayed productivity increases.

23. The Government intervenes in the distribution of agricultural products by regulating - often unnecessarily - the pricing and marketing of farm products. This often results in high-cost distribution systems, has motivated smuggling to neighboring countries due to low prices paid to producers on some crops and has worsened the position of low-income consumers. The existing subsidy system is regressive and rather counterproductive. Wheat import subsidies ostensibly introduced to stabilize food prices also benefit higher income groups and adversely affect incentives to produce cereals, roots and tubers domestically.

24. The industrial sector expanded in 1970-78 by 10.2 percent annually. It represented 16.8 percent of GDP in 1978. It has been stimulated by fast income growth, a favorable investment climate, generous fiscal investment incentives, tariff protection, financial stability and, to a limited extent, by the emergence of the Andean common market. The sector is however still fairly thin, with a small modern oligopolistic segment operating mainly in the import-substitution of consumer goods, and the remainder consisting of a large number of traditional small-size firms.

25. Export incentives are relatively recent and limited. The major constraints to more dynamic industrial development were the inward-looking nature of this sector despite the small size of the domestic market, the still insufficient physical infrastructure, a heavy concentration of industrial ownership in the modern sector of industry and the related reluctance by owners-managers to accept new share capital needed for expansion and, finally, limitations on available financing for other than well established firms.

26. Petroleum production on a major scale began in Ecuador in 1972. Increases in international prices since 1973 considerably enhanced the sector's role in the economy: it contributed 16 percent to Ecuador's GDP, accounted for about 50 percent of export earnings and for 37 percent of

current public revenues in 1974. Production, after reaching a peak of 76 million barrels per year in 1973 declined afterwards. It fell to a level of around 65 million until 1978 but will probably rebound to 77 million barrels in 1979. Net crude oil exports (excluding the sale to pay for imports of derived products) which attained 59 million barrels in 1973, have been declining steadily to 42 million barrels in 1978.

27. The rapidly increasing domestic consumption which amounted to only 10 million barrels 1/ in 1973, reached 32 million barrels 1/ in 1978, as it has been stimulated by economic growth and the low domestic petroleum prices, kept unchanged in nominal (current) terms for the last ten years.

28. Exploration activities have been at a standstill since early 1973 until 1978. The number of exploratory wells drilled fell from a peak of 20 in 1972 to only 3 in 1977. This had its reason in inadequate incentives to attract foreign capital and lack of funds and experience to undertake the required exploration work by the domestic state-owned oil company. The low level of drilling activity caused decline in oil reserves from about 1.460 million barrels in 1974 to 1.166 million barrels in 1978.

29. Administrative inefficiencies have hampered seriously planning, overall coordination and control of petroleum operations concentrated in the hands of a consortium formed by CEPE, the domestic oil company, holding 63 percent of the shares of the consortium (Texaco is holding the remainder).

30. Lately, the Government has introduced changes in the petroleum law in the hope of reverting the falling trend. While 23 new wells will be drilled in 1979, oil reserves would probably reach their lowest level of 1.092 million barrels by the end of the year, allowing for fifteen years of production at the present production capacity.

III. Short-term Issues - Current and in the Immediate Future

31. A new Government took power on August 10, 1979. It has not yet prepared a coherent development strategy, and a precise judgement on what will be decided is yet difficult to venture in view of the fluidity of the political scene. Nevertheless, the Government is aware of some of the main economic and social problems, is willing to give more weight to the social issues, and is keeping under close scrutiny economic problems of immediate importance. Particularly, in the area of administrative improvements, it is trying to organize the short-term economic planning, to enhance the power of the institution in charge of medium-term planning and to revive controls on key economic parameters like the foreign debt.

32. Three most pressing issues will have to be faced in the short-run:

1/ Product equivalent

i) the foreign debt; ii) the fiscal deficit and iii) the petroleum sector.

33. (i) The Foreign Debt. Ecuador, which had followed for a long time a prudent foreign debt policy, abandoned this attitude in 1977.

34. New commitments which had remained below US\$200 million per year before 1976 (excluding military debt), have exceeded US\$500 million since 1977. Although disbursements have lagged significantly behind commitments, they have followed the same pattern as commitments. While during the period 1971-75, disbursed debt had increased by an annual rate of 16.5 percent, between 1976 and 1979, the growth rate of disbursements accelerated to 46.3 percent p.a. During 1977 alone, the outstanding and disbursed foreign debt (military debt included), increased by about 75 percent. As a result, by the end of 1979, disbursed debt is expected to attain US\$2.100 million. ^{1/} If military debt is added to this amount, near US\$3.100 million would have been accumulated. Average maturities of new borrowing have also shortened sharply in recent years, from 19.6 years in 1970-73 to only 11.0 years in 1975-78. This has been the result mainly of a shift from official to private sources of foreign credit. In 1977, private sources of official borrowing accounted for as much as 78 percent of committed amounts.

35. The highly expansionary fiscal policy followed by the Military Government in recent years and its decision to resort to foreign debt for its deficit financing are at the core of the sharp change in the debt structure. The inability of the Government to maintain the level of non-petroleum tax effort, the quickly expanding current and military expenditures and the unchanged level of petroleum revenues accruing to the public sector resulted in a growing fiscal deficit which reached 7.3 percent of GDP in 1978. Foreign exchange was made abundantly available to Ecuador thanks to the established international creditworthiness and the Government decided to abolish the controls on new debt, exercised until 1977, by the "Foreign Credit Committee" so as to make an increasing recourse to foreign borrowing in order to finance its deficit, rather than to mobilize domestic resources for this purpose.

36. The effects of this rapid increase in foreign borrowing is now felt acutely in debt servicing. The debt-service ratio, excluding military debt, will jump from 12 percent in 1978 to around 33 percent in 1979. However, the Government has undertaken recently (early 1979) serious efforts toward changing the debt structure and this percentage, which would be considered very high in different circumstances, includes a prepayment of loans contracted on least favorable conditions.

^{1/} Bank Group Lending constituted about 11 percent of outstanding (including undisbursed) non-military debt by the end of 1978. IDB lending represents about 21 percent of this total.

Ecuador: Foreign Debt and Debt Service
(US\$ million)

	1977	1978	1979 a)	1980 a)
1. Exports (NFS included)	1.603	1.734	2.185	2.575
2. Debt Service (military debt excluded)	117	208	724 b)	403
Debt Service as Percentage of Exports	7.3	12.0	33.1 X	15.7
Debt Service as Percentage of Exports (military debt included)	20.9	33.2	54.0 X	30.5

a) Estimates

b) Includes pre-payment of a number of hard-term loans, equal to US\$510 million. To prepay these loans, a medium-term loan has been contracted on more favorable conditions. If this pre-payment is subtracted, the debt-service ratio would decline to 9.8.

37. (ii) Fiscal Deficit. As a result of combination of stagnating oil revenues, a decline of non-petroleum tax effort and rising expenditures, the fiscal deficit which revolved around only 1 percent of GDP during 1972-76 has been increasing and is expected to reach 7.7 percent of GDP in 1979. The new Government has decided to reduce the size of the fiscal deficit, criticized strongly the "irresponsible indebtedness policy" of the previous Government, and decided to slow down the accumulation of foreign debt and to utilize it more efficiently.

38. Several factors militate against such intentions: a) short term inflexibility of revenues and expenditures; b) the lack of clarity as to the development priorities and c) political considerations.

39. (a) The Government could obtain additional revenues by increasing the domestic price of petroleum and its derivatives and by increasing non-petroleum revenues. The latter represented 18.6 percent of GDP in 1972, but will not exceed 14.0 percent in 1979. However, political sensitivities are standing in the way of such improvements, which would call among other for a gradual alignment of the domestic prices to international levels. It is therefore expected that other measures will be taken instead to "rationalize" consumption, but this cannot have any significant impact on fiscal revenues. The existing oil price subsidy is likely to disappear only during the decade of the eighties.

40. Furthermore, adjustment of the non-petroleum taxes would require Congress approval. Congress has made known to the President that his proposition will not be endorsed. Even if approved, the inefficiency of tax administration will limit seriously the immediate effects of such measures. Only about 1.0 percent of GDP is expected to be added to the present level of revenues during 1980.

41. (b) The Government is under the strong internal pressure to increase capital expenditures. A large list of identified and prepared projects is waiting in the pipeline. They represent the equivalent of over US\$1 billion a year, much more than the public sector has been investing before. Practically all projects are considered to have priority. Furthermore, the new Government is proposing new, ambitious and highly necessary projects in the social sector which it wants to carry out immediately. A plan to eradicate illiteracy and a strong effort to help small-scale farmers through integrated rural development projects are among those. Finally, the Government realizes that nine-tenths of the funds likely to be available for public capital expenditures are already committed to old projects.

42. A clear definition of priorities and their strict application could help to solve the difficult choice the Government is facing. But, they are left in wanting. Priorities established during the campaign and revised later for the preparation of the budget are still too vague, and numerous and, therefore, cannot be used as a clear yardstick by the ministries and public institutions, to decide why and how their budgeted capital expenditures should and could be reduced. Consequently, the internal pressure for increased expenditures continues.

43. (c) Political reasons make the reduction of deficit through a reduction in capital expenditures even more difficult. Since most of funds for 1980 are already committed to "old" projects, new projects imply additional expenditures. Following possibilities should be considered. Firstly, if, to reduce the deficit, the Government decides not to undertake investment ventures promised during the election period, its political image would be affected. Secondly, if a weeding of the old projects is carried out and new projects are added, vested provincial interests might suffer. Thirdly, the Congress is now in the process of approval of the 1980 budget, and, it is expected, that non-priority expenditures will be added to it without the Government being able to mobilize additional resources. As the President has no veto power over the budget, there is no way to prevent that this occurs.

(iii) Petroleum Issues

44. Prices of petroleum products in Ecuador have been maintained at levels fixed a decade ago, with the exception of slight modifications for tax purposes. Crude oil for domestic consumption is priced at present at US\$1.48 per barrel and prices of oil derivatives average about US\$6.40 per

barrel. Both are among the lowest in the world. The price per gallon of 80-octane gasoline is below US\$0.20. This has brought about a 16 percent p.a. increase in consumption of petroleum products in recent years. Moreover, it led also to more than rationally justified purchases of capital goods and transport equipment applying energy-intensive processes and lowered domestic relative prices of energy-using products. As a result it encouraged the Ecuadorian entrepreneurs to specialize in the export production of goods which are not in the country's long-term comparative advantage.

45. An increase in domestic prices of petroleum, could provide adequate resources to the public sector and enable it to finance capital investment largely from its own savings and reduce its reliance on excessive foreign borrowing for deficit financing.

46. Furthermore, the domestic price increases of petroleum products would eliminate the implicit regressive subsidy received essentially by the urban middle class of Ecuador. A part of new revenues obtained from such increases should be used to cushion the impact of the price change on the poorest population.

47. The appropriate time-scheduling of petroleum price adjustments is of importance. The existing sharp difference between domestic and international petroleum prices cannot be eliminated in one single move, even if such a measure was politically feasible because consumers' real incomes would suffer unduly from such one-time cut and expenditures would fall accordingly. As labor unions would press for higher wages, private business in Ecuador would find itself caught between higher costs, resulting from higher energy and wage bills and a falling demand resulting from curtailments in consumption.

48. Exploration for petroleum has been at a standstill and recoverable reserves have declined. By the end of 1979 a ratio between reserves and annual production would decline from 1:22 in 1974 to 1:13. Ecuador may soon become a net importer if this trend continues. To alleviate future financial and foreign exchange problems, a vigorous effort of exploration should be carried out. To do that, problems such as the insufficiency of incentives to foreign capital and the instability in the general regulations binding the petroleum industry should be quickly solved. Finally, the financial difficulties of the publicly-owned oil company and its lack of experience in exploration could be remedied through financial and technical advise, which the Bank could, at least partly, provide.

IV. Long Term Issues

49. Ecuador is facing three major issues in the foreseeable future. The first is the necessity to start eliminating the dualism in its economy. The second is the inability of the public sector to operate

efficiently. The third is the shortfall in its foreign exchange and fiscal revenue, compared to the country's needs. The solution to the first is, or should become, a long-term target, the solution to the second has both the long and the short-term implications, while the importance of the third, which is of recent making, should not become more than that of a medium-term constraint.

(i) Dualism

50. The review of the structure of the economy points to a pronounced - even increasing in some sectors - economic dualism. A large number of farms and a substantial number of enterprises in the manufacturing industry, construction and commerce continue to subsist outside the realm of modern production and organization methods, use obsolete equipment, benefit little from newly constructed public infrastructure.

51. As a result, these units, belonging all to a traditional sector, produce goods and services with very low productivity methods, and, commensurately, pay wages or provide revenues permitting barely to maintain a subsistence level. As a whole, they contribute little to the growth of the economy.

52. While the traditional sector helps to maintain the level of employment, it does so at a macro-economic cost. Three components of such cost could be singled out. Firstly, its low wages and revenues are inadequate for those who aspire for a standard of living higher than that of a mere subsistence. Consequently, there exists a permanent strong pressure on wage levels, but the production methods do not permit that wages and revenues be increased without inflationary effects. This notwithstanding, the Ecuadorian Congress has recently (October 1979) approved a doubling of the minimum wage and other adjustments in the salaries of the public administration which would double the originally expected deficit of the Central Government in 1980 and should generate a strong inflationary thrust.

53. Secondly, traditional industrial and agricultural enterprises while co-existing alongside with those of the modern sector, have barely any production linkages with them, be it through input supply to the modern sector or through subcontracting. The absence of linkages removes the modern sector from the country's comparative advantage, such as labor and domestic raw materials, and induces it to rely increasingly on imported intermediates.

54. Thirdly, the traditional part of the dual sector continues to be exclusively inward-oriented. Its contribution to exports is non-existent and, because of the size of its units and its obsolete techniques of production, it can hardly compete efficiently against imports in areas where such competition could exist. It provides, therefore, and for wrong reasons, a justification for introduction or continuation of protection against imports. In turn, such protection benefits the modern sector, which does not need it and whose efficiency could be affected by it.

55. A multitude of policies could and needs to be designed to reduce the pronounced dualism of the Ecuadorian economy. In industry, such policies should consist in extending more ample credit to small and medium scale enterprises to permit them to modernize. Next, the existing incentives for large enterprises --especially those which bias their choice of techniques toward excessive capital-intensity-- should be replaced by a policy framework which would induce them to seek actively sources of supply in the traditional industrial sector and in domestic agriculture. In agriculture, improved extension services, better commercial distribution network and some adjustments in the landholding pattern could become instruments towards modernization of its traditional subsectors.

(ii) Public Administration

56. One of the major constraints to the economic development of Ecuador is the weakness of its public administration. Numerous reorganizations which have taken place since 1970 have led to a somewhat perplexing situation and have complicated the decision-making process.

57. State enterprises lack autonomy and flexibility. The decentralization of economic decisions is insufficient and decentralized entities are not coordinated among themselves. Highly centralized and rigid personnel structure, poor and deteriorating pay scales for professionals and inadequate recruiting and training systems for public servants have resulted in unstable and low quality personnel.

58. An unsatisfactory budgetary process has encouraged borrowing, is biased against self-financing of investment and sets up special accounts without a possibility to control their use. Earmarked funds and special accounts have created rigidities which create inducement to use the funds even if reasons for their creation weakened while at the same time make it difficult to shift resources to high priority uses.

59. Improvement in the efficiency of the public sector would have a beneficial impact on the identification, preparation and execution of development projects in Ecuador. Realistic national and sectoral operative plans should become a necessary framework for better project identification and evaluation. Streamlining the budgetary process should eliminate costly delays in project execution. Improved coordination among public institutions should allow undertaking of joint efforts at the project level. Finally, more flexible personnel policies and efforts to attract qualified staff would help to assure work continuity and would help to eliminate problems associated with the high rate of turnover among administrators at the project level.

(iii) Financial Disequilibria

60. Another major problem that Ecuador confronts is that of the financial disequilibria, which are short-term in their character. When the revenue from petroleum started to provide additional resources, the intensity of resource mobilization efforts needed to pay for country's imports and for its public expenditures, slackened in Ecuador. Both the efforts to promote exports of non-traditional and agricultural goods and efforts to raise taxes were lagging behind the rapid growth of the economy. However, public expenditures and imports kept growing quickly, adjusting themselves to the high level of petroleum revenue. By 1976 they exceeded what petroleum revenue could provide, especially as the petroleum revenue itself ceased to grow, with low priced domestic consumption of oil and its products preempting an increasing part of the overall oil production. Fiscal and balance-of-payments current deficits re-emerged and strong financial measures had to be taken in order to maintain these deficits within manageable proportions. These measures were directed mainly toward slowing down of expenditures, rather than toward deepening of the revenue sources.

61. Such policies are acceptable, or even necessary, for meeting short-term stabilization targets. However, in the long-term perspective, it is the sources of foreign exchange and public revenue which will have to be broadened. The use of demand management policies alone would, in Ecuador, hold down the economic growth below the level achieved during the petroleum boom or, more importantly, below the country's human and natural resource potential. If the latter prevails, it would also make the solution of the problem of economic dualism difficult, because it entails a shortage of means necessary to expand infrastructure to reach the rural poor or to expand credit to reach small-scale industrial, agricultural and commercial enterprises.

62. In the increase in domestic prices of oil Ecuador has at its disposal an immediate and highly effective measure to increase Government revenues which would also free more oil for exports. But Ecuador should also make recourse to other economic policies. Non-traditional and agricultural exports should be stimulated, tax administration should be improved, unnecessary tax exemptions should be abolished and import tariff structure should be revised. These measures would not only be useful to expand sources of foreign exchange and public revenues but they would also allow a more balanced economic growth and would steer the sources of this growth closer to the country's comparative advantage.

V. Outlook

63. In the medium term, the Ecuadorian economy has fair growth prospects: it is expected to grow by at least 5 percent annually. It is unlikely that the external sector will continue to play as strong a growth-propelling role as in the past, mainly because oil exports are expected to continue to decline and because agricultural exports may be constrained by adverse world market price movements. The prospects of the Ecuadorian economy

could be strengthened, however, through timely implementation of improved policies in the petroleum, agriculture and manufacturing sectors. The new Government is now working on a new five-year development plan covering the 1980-84 period. Ecuador's economic administration includes the Planning Board, the Central Bank, and the Ministry of Finance. The talents of this administration could be used to design the required strategic framework, provided that they act in unison, which has not always been the case in the past and does not appear to be the present case either.

64. Given its outlook and expected debt service burden in the medium term, Ecuador remains creditworthy.

65. Tables containing social indicators and economic data for Ecuador are attached.

POLITICAL SITUATION

1. After more than six years of military dictatorship, Ecuadorians went to the polls for national elections on July 16, 1978. None of the six major candidates for the presidency obtained a majority and, after repeated delays, a run-off election was finally held on April 29, 1979. The two competing candidates in the run-off were Jaime Roldos, standard bearer of the "Concentration of Popular Forces" (CFP)--a populist movement-- and Sixto Duran Ballen of the conservative "Constitutionalist Front".
2. In the run-off election, Roldos won a smashing victory over Duran Ballen getting about two-thirds of the votes in an election in which the turnout was heavy. Roldos made a strong showing not only in Guayaquil, his hometown, and in the Costa region, but also in the Sierra, which has traditionally been more conservative.
3. Until the July 1978 elections, Roldos was a little known political figure in Ecuador. Assad Bucaram, the former mayor of Guayaquil and the populist founder of the CFP, figured to be the party's candidate for the presidency. However, Mr. Bucaram--who is viewed as a dangerous demagogue by Ecuador's military and economic establishments--was barred from doing so by a provision in the 1978 constitution requiring that both parents of presidential candidates be born in the country; Mr. Bucaram's father and mother both immigrated to Ecuador from Lebanon.
4. Checkmated in his attempt to gain the country's highest elected office outright, Bucaram--Ecuador's most powerful political "boss"--hand-picked Roldos, a 38 year old lawyer, to run as his stand-in. Roldos had long been active in CFP politics and is, moreover, linked to Bucaram by marriage; his wife is Mr. Bucaram's niece. The conventional wisdom at the time was that Roldos would be a pliant proxy for the aging Bucaram.
5. During the electoral campaign, relations between Bucaram and Roldos gradually cooled as the latter began to assert his independence while reaching out to the military and the private sector to broaden his political base. In the campaign, Roldos and his vice-presidential running mate, Osvaldo Hurtado--the bright young head of Ecuador's small Christian Democratic Party--emphasized their commitment to democratic change, redistribution of wealth and attention to the poorest sectors of society. Their main political theme was to balance growth with social justice. Both members of the ticket campaigned vigorously but were careful to strike a responsible, moderate stance. The result was the landslide victory referred to in paragraph two.
6. Despite his impressive mandate, Roldos' first two months in office have been stormy ones. Following his inauguration on August 10 for a five year term, he came under heavy political fire from Bucaram, who had been elected president of Ecuador's unicameral legislature. With 30 seats in the 69 member Congress, Bucaram's CFP constitutes far and away the strongest bloc in the legislature.

7. As the result of the growing rift between Roldos and Bucaram, the Administration's initiatives have, so far, been paralyzed. Under the 1978 constitution, the full Congress is only in session for two months a year. It was scheduled to recess on October 10, delegating its duties to three small committees. Once this happened, it was hoped that the clashes between the Administration and Bucaram would subside. However, the Congress has voted to continue in "extraordinary" session until mid-November 1979. Roldos--who had vetoed several Bucaram-inspired bills including one to revalue the Sucre, Ecuador's already over-valued currency--had no choice but to accept the extension since the Congress had failed, inter alia, to approve the 1980 budget. ✓

8. There are indications that Bucaram's harrassment of the President may be backfiring. Bucaram's prestige has suffered and most responsible spokesmen, including Ecuador's major newspapers, have become openly critical of him. Roldos' stock, on the other hand, appears to be rising. On October 9, for example, Roldos and Hurtado were enthusiastically received at a large rally in Guayaquil, Bucaram's stronghold. It is widely rumored that Roldos may form a separate political party, the Force of Change Movement. This would be a broad-based coalition to which Roldos hopes to attract many CFP leaders. If successful in launching the movement, Roldos might be able to wrest effective control of the Congress from Bucaram and perhaps politically eclipse him altogether.

9. Only time will tell how successful Mr. Roldos will be in achieving equitable growth while implanting a lasting democratic tradition in Ecuador. To do so, he will have not only to neutralize the challenge from Mr. Bucaram but also to gain and keep the support of Ecuador's economic elite while maintaining the armed forces--frequent participants in the country's politics in the past--on the sidelines. This will require skill and political astuteness on Mr. Roldos' part...and a healthy measure of luck.

10. President Roldos has already carved out an important position for himself on the international scene as the forerunner of a growing Latin American trend towards democracy. As President-elect, he paid a visit to the leaders of several Latin American democracies (Colombia, Venezuela, the Dominican Republic and Costa Rica) and to the U.S. He was also the first important Latin American political figure to visit the revolutionary Government in Nicaragua. The important turn-out at his inauguration, which included Mrs. Carter and Secretary Vance as well as several Latin American heads of state, underscores the increasing attention which the international community has given to Mr. Roldos and his Government.

11. Roldos' cabinet, composed of politicians and former private sector executives, has been described as "centrist and progressive". While most members of the economic team are competent individuals, some ministers (e.g., Agriculture and Industry) are technically weak, political appointees. It is rumored that they will be replaced in early 1980 when a cabinet shake-up may take place. ←

12. Two non-cabinet officials deserve special mention: the Vice President and Leon Roldos, the President's brother.

13. Under the new constitution, Vice President Hurtado would be responsible for economic planning as head of the National Council for Economic Development (NCED). The Planning Board (JUNAPLA) would become the NCED's technical secretariat, under the Vice President. Although the new constitution envisages the establishment of this new system, additional legislation is required to define precisely the scope and function of the NCED. A bill to this effect was presented to Congress in August, 1979, but has not yet been approved. As of this writing, therefore, whether Hurtado will have a major rôle in policy-making or become a weak ceremonial figure is still not clear.

14. Leon Roldos, the President's brother, has been appointed President of the Monetary Board. Given his political influence and pragmatic and dynamic personality, however, he also acts as a far ranging troubleshooter for the President. Given his influence and penchant for involving himself in many important issues, Leon Roldos is said to have caused resentment among some government officials. This could create tensions within the Administration.

15. Mr. Leon Roldos visited the Bank in July 1979. Since then, he has taken a special interest in Bank projects and operations. He was appointed Bank Governor in September 1979. As such, he headed the Ecuadorian Delegation to the Annual Meetings in Belgrade.

10/17/79
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TABLE 3A
ECUADOR - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.) TOTAL 283.6 AGRICULTURAL 73.0	ECUADOR			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) /a		
	1960 /b	1970 /b	MOST RECENT ESTIMATE /b	SAME GEOGRAPHIC REGION /c	SAME INCOME GROUP /d	NEXT HIGHER INCOME GROUP /e
GNP PER CAPITA (US\$)	..	370.0	910.0	1124.4	1097.7	1942.6
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	201.0	297.0	455.0	943.1	730.7	1646.7
POPULATION AND VITAL STATISTICS						
POPULATION, MID-YEAR (MILLIONS)	4.4	6.0	7.3	..	..	..
URBAN POPULATION (PERCENT OF TOTAL)	34.4	39.5	41.6	59.3	49.0	51.2
POPULATION PROJECTIONS						
POPULATION IN YEAR 2000 (MILLIONS)	..	..	14.0	..	..	..
STATIONARY POPULATION (MILLIONS)	..	..	26.0	..	..	..
YEAR STATIONARY POPULATION IS REACHED	..	..	2080	..	..	..
POPULATION DENSITY						
PER SQ. KM.	16.0	21.0	26.0	23.5	44.6	28.2
PER SQ. KM. AGRICULTURAL LAND	91.0	100.0	100.0	80.5	140.7	100.5
POPULATION AGE STRUCTURE (PERCENT)						
0-14 YRS.	45.4	46.6	46.1	40.9	41.3	35.4
15-64 YRS.	52.0	50.8	51.2	54.4	55.3	56.3
65 YRS. AND ABOVE	2.6	2.6	2.7	3.9	3.5	5.1
POPULATION GROWTH RATE (PERCENT)						
TOTAL	2.9	3.0 1/	3.0 1/	2.4	2.4	1.7
URBAN	5.0/R	4.4	4.1	3.7	4.5	3.0
CRUDE BIRTH RATE (PER THOUSAND)	47.0	43.0	41.0	32.8	31.1	27.5
CRUDE DEATH RATE (PER THOUSAND)	17.0	13.0	10.0	8.5	9.2	9.1
GROSS REPRODUCTION RATE	..	3.3	3.1	2.4	2.2	1.8
FAMILY PLANNING						
ACCEPTORS, ANNUAL (THOUSANDS)	..	9.0	32.3	..	..	..
USERS (PERCENT OF MARRIED WOMEN)	..	..	6.3	17.7	34.7	..
FOOD AND NUTRITION						
INDEX OF FOOD PRODUCTION PER CAPITA (1969-71=100)	89.8	101.0	98.0	99.4	104.4	102.0
PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)						
TOTAL	81.0	91.0 2/	93.0 2/	107.0	105.0	120.8
PROTEINS (GRAMS PER DAY)	46.0	49.0	47.4	60.4	64.4	80.9
OF WHICH ANIMAL AND PULSE	24.0	22.0	21.9	28.3	23.5	31.3
CHILD (AGES 1-4) MORTALITY RATE	23.0	16.0	10.0	6.7	8.6	5.1
HEALTH						
LIFE EXPECTANCY AT BIRTH (YEARS)	51.0	56.0	59.6	63.6	60.2	65.6
INFANT MORTALITY RATE (PER THOUSAND)	140.0	118.0	..	76.1	46.7	45.5
ACCESS TO SAFE WATER (PERCENT OF POPULATION)						
TOTAL	..	34.0	40.0	63.4	60.8	69.4
URBAN	..	76.0	82.0	79.5	75.7	85.1
RURAL	..	7.0	13.0	38.6	40.0	43.0
ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)						
TOTAL	..	22.4	35.8	58.8	46.0	70.1
URBAN	..	..	..	77.8	46.0	88.3
RURAL	..	..	..	24.5	22.5	33.2
POPULATION PER PHYSICIAN	2600.0	2870.0	1570.0	1841.9	2262.4	1343.2
POPULATION PER NURSING PERSON	2280.0	1605.0	..	933.7	1195.4	765.0
POPULATION PER HOSPITAL BED						
TOTAL	520.0/E	430.0	..	563.4	453.4	197.6
URBAN	..	190.0	..	279.4	253.1	260.2
RURAL	..	4740.0	..	1140.9	2732.4	1055.0
ADMISSIONS PER HOSPITAL BED	..	17.0	..	25.7	22.1	17.3
HOUSING						
AVERAGE SIZE OF HOUSEHOLD						
TOTAL	5.1/E	5.2	5.3	5.0	5.3	4.7
URBAN	..	..	..	4.8	5.2	4.4
RURAL	..	..	..	5.3	5.4	5.1
AVERAGE NUMBER OF PERSONS PER ROOM						
TOTAL	2.5/E	..	..	1.3	1.9	1.1
URBAN	2.1/E	..	..	1.3	1.6	1.2
RURAL	2.8/E	..	..	1.5	2.5	1.2
ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)						
TOTAL	32.0/E	..	41.2	54.3	50.0	66.0
URBAN	78.5/E	..	84.3	80.1	71.7	85.1
RURAL	6.0/E	..	11.6	14.2	17.3	..

- 1/ Official sources give 3.5 and 3.4 percent for 1970 and 1978, respectively.
2/ JUNAPLA gives figures of 76.0 and 86.3 percent for 1968 and 1974, respectively.

TABLE 3A
ECUADOR - SOCIAL INDICATORS DATA SHEET

	ECUADOR			REFERENCE GROUPS (ADJUSTED AVERAGES - MOST RECENT ESTIMATE) ^{/a}		
	1960 ^{/b}	1970 ^{/b}	MOST RECENT ESTIMATE ^{/b}	SAME	SAME	NEXT HIGHER
				GEOGRAPHIC REGION ^{/c}	INCOME GROUP ^{/d}	INCOME GROUP ^{/e}
EDUCATION						
ADJUSTED ENROLLMENT RATIOS						
PRIMARY: TOTAL	83.0	97.0	102.0	107.3	102.5	101.7
MALE	87.0	99.0	104.0	109.1	108.6	110.0
FEMALE	79.0	95.0	101.0	107.4	97.1	92.8
SECONDARY: TOTAL	12.0	26.0	42.0	40.5	33.5	51.2
MALE	13.0	28.0	43.0	40.4	38.4	56.4
FEMALE	10.0	24.0	40.0	39.0	30.7	43.7
VOCATIONAL ENROL. (% OF SECONDARY)	29.0	29.0	23.0	18.5	11.5	18.3
PUPIL-TEACHER RATIO						
PRIMARY	39.0	38.0	38.0	37.1	35.8	27.1
SECONDARY	11.0	15.0	17.0	17.9	22.9	25.3
ADULT LITERACY RATE (PERCENT)	67.5/ ^f	68.0	73.9	77.4	64.0	86.1
CONSUMPTION						
PASSENGER CARS PER THOUSAND POPULATION						
	2.0	5.0	6.4	29.1	13.5	53.4
RADIO RECEIVERS PER THOUSAND POPULATION						
	41.0	279.0	..	172.1	122.7	225.9
TV RECEIVERS PER THOUSAND POPULATION						
	0.5	25.0	37.0	67.9	38.3	102.6
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION						
	54.0	41.0	49.0	76.1	40.0	78.5
CINEMA ANNUAL ATTENDANCE PER CAPITA						
	..	4.0	5.6	4.2	3.7	3.6
LABOR FORCE						
TOTAL LABOR FORCE (THOUSANDS)						
	1400.0	1700.0	2172.0	..	..	..
FEMALE (PERCENT)						
	16.2	19.1	20.1	21.5	25.0	24.5
AGRICULTURE (PERCENT)						
	57.4	50.9	47.0	30.2	43.5	28.9
INDUSTRY (PERCENT)						
	19.4	22.2	24.0	23.8	21.5	30.6
PARTICIPATION RATE (PERCENT)						
TOTAL						
	32.5	31.7	31.6	30.9	33.5	33.8
MALE						
	54.3	51.0	50.2	47.3	48.0	51.3
FEMALE						
	10.5	12.2	12.8	13.3	16.8	16.3
ECONOMIC DEPENDENCY RATIO	1.5	1.7	1.6	1.5	1.4	1.3
INCOME DISTRIBUTION						
PERCENT OF PRIVATE INCOME RECEIVED BY						
HIGHEST 5 PERCENT OF HOUSEHOLDS						
	..	..	..	23.7	20.8	..
HIGHEST 20 PERCENT OF HOUSEHOLDS						
	..	..	..	58.7	52.1	57.6
LOWEST 20 PERCENT OF HOUSEHOLDS						
	..	..	..	2.9	3.9	3.4
LOWEST 40 PERCENT OF HOUSEHOLDS						
	..	..	..	9.9	12.6	11.0
POVERTY TARGET GROUPS						
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN						
	..	..	269.0	265.6	270.0	..
RURAL						
	..	..	183.0	185.1	183.3	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)						
URBAN						
	..	..	307.0	396.3	282.5	550.0
RURAL						
	..	..	77.0	308.1	248.9	403.4
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)						
URBAN						
	..	..	40.0	35.2	20.5	..
RURAL						
	..	..	65.0	46.6	35.3	..

.. Not available
. Not applicable.

NOTES

^{/a} The adjusted group averages for each indicator are population-weighted geometric means, excluding the extreme values of the indicator and the most populated country in each group. Coverage of countries among the indicators depends on availability of data and is not uniform.

^{/b} Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1974 and 1977.

^{/c} Latin America & Caribbean; ^{/d} Intermediate Middle Income (\$551-1135 per capita, 1976); ^{/e} Upper Middle Income (\$1136-2500 per capita, 1976); ^{/f} 1962; ^{/g} 1950-62.

Most Recent Estimate of GNP per capita is for 1978.

August, 1979

COUNTRY DATA - ECUADOR

AREA	POPULATION	DENSITY
283,600 km ²	7.9 million (1978) Rate of Growth: 3.4% (1974-79)	28 persons per km ²
POPULATION CHARACTERISTICS (1974)		
Crude Birth Rate (per 1,000)	45.0	
Crude Death Rate (per 1,000)	10.2	
Infant Mortality (per 1000 live births)	70.0	
INCOME DISTRIBUTION (1975)		
Highest Quartile	70.0	
Lowest three quartiles	30.0	
ACCESS TO PIPED WATER (1977)		
% of Population Covered	46.1	
NUTRITION (1974)		
Daily Calorie intake per capita	1,985	
Daily Protein intake per capita (grs)	37	
HEALTH (1977)		
Population per physician		1,570
Population per hospital bed		990
DISTRIBUTION OF LAND OWNERSHIP (1974)		
% of farms:		
Below 5 ha.:		5.0
Above 50 ha.:		
ACCESS TO ELECTRICITY (1974)		
% of Dwellings		41.2
(Urban)		84.3
(Rural)		11.6
EDUCATION (1974)		
Adult literacy rate (%)		74
Primary School enrollment (%)		102

GNP PER CAPITA IN 1978: US\$910^{1/}

ECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT IN 1978	ANNUAL RATE OF GROWTH (% constant 1970 Suces)			
	US\$ Mln.	%	1970 - 77	1978
GDP at Market Prices	7,482	100.0	8.6	5.3
Gross Domestic Investment	1,970	26.3	11.1	- 7.7
Gross National Saving	1,809	24.2	7.0	27.2
Resource Balance	- 6	0.0	22.2	-
Exports of Goods, NFS	1,734	23.2	8.1	- 3.0
Imports of Goods, NFS	1,738	23.2	12.4	13.5

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1977

	Value Added ^{2/}		Labor Force ^{3/}		V. A. Per Worker	
	US\$ Mln.	%	Mln.	%	US\$	%
Agriculture	1,248	20.3	.943	43.1	1,323	47.1
Industry	2,188	35.6	.449	20.5	4,873	173.5
Services	2,716	44.1	.788	36.4	3,403	121.1
Unallocated	..	..	..	..	..	..
Total/Average	6,152	100.0	2.190	100.0	2,809	100.0

GOVERNMENT FINANCE

	(as percentage of GDP) General Government		
	Average	1977	1978
	1970-76		
Current Receipts	20.2	17.8	23.1
Capital Receipts	1.4	1.0	0.2
Current Expenditures	13.0	14.1	20.1
Capital Expenditures	9.8	8.8	10.5
Deficit	- 1.2	- 4.1	- 7.3

MONEY, CREDIT and PRICES	1973	1974	1975	1976	1977	1978
	(Million sucres outstanding end period)					
Money and Quasi Money	12,515	17,430	19,816	26,814	32,238	36,215
Bank Credit to Public Sector (net)	- 53	-1,427	-2,134	-2,132	-4,972	-6,531
Bank Credit to Private Sector	11,444	16,441	21,340	29,018	36,354	43,649
	(Percentages or Index Numbers)					
Money and Quasi Money as % of GDP	19.6	18.6	18.3	20.6	20.0	15.7
General Price Index (1970 = 100)	132.0	162.0	185.2	204.1	230.5	260.7
General Price Index (Growth rate yearly average)	12.0	22.7	14.3	10.2	12.9	13.1

.. not available
- not applicable

NOTE: All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

1/ Social Indicators Data Sheet.

2/ Industry includes mining, manufacture, electricity and water and construction.

3/ Total labor force; unemployed are allocated to sector of their normal occupation. "Unallocated" consists mainly of unemployed workers seeking their first job. Labor force for 1977 are estimated based on average annual growth rates by sector during the period 1972-76.

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
	(Millions US \$)			
Exports of Goods, NFS	1110	1419	1603	1734
Imports of Goods, NFS	-1295	-1340	-1811	-1738
Resource Gap (deficit = -)	- 185	79	- 208	- 4
Net Factor Payments	- 67	- 117	- 170	- 206
Net Transfers	<u>32</u>	<u>31</u>	<u>36</u>	<u>40</u>
Balance on Current Account	- 220	- 7	- 341	- 161
Direct Foreign Investment	95	- 20	35	40
Net MLT Borrowing				
Disbursements	137	233	637	514
Amortization	- 33	- 56	- 105	- 247
Subtotal	<u>104</u>	<u>177</u>	<u>532</u>	<u>267</u>
Capital Grants	-	-	-	-
Other Capital (net)	- 45	53	- 114	- 109
Other items n.i.e.	-	-	-	-
Increase in Reserves (-)	<u>65</u>	- 203	- 112	<u>37</u>
Gross Reserves (end year)	312	559	744	765
Net Reserves (end year)	257	457	613	646
Fuel and Related Materials				
Imports				
of which: Petroleum	14	7	9	9
Exports				
of which: Petroleum	617	737	651	558

RATE OF EXCHANGE (official Rate)

Since - 1971
 US \$ 1.00 = 25 Sucres
 S 1.00 = US \$0.04

MERCHANDISE EXPORTS (AVERAGE 1976-78)

	<u>US \$ Mln.</u>	<u>%</u>
Petroleum	648	45.9
Bananas	163	11.5
Coffee	220	15.6
Cacao	48	3.4
Fishery	37	2.6
All other commodities	<u>297</u>	<u>21.0</u>
Total	1,413	100.0

EXTERNAL DEBT, DECEMBER 31, 1978

	<u>US \$ Mln.</u>
Public Debt, incl. guaranteed	1.564 ^{1/}
Non-Guaranteed Private Debt	..
Total outstanding and disbursed	1.564

DEBT SERVICE RATIO for 1978 ^{2/}

	<u>%</u>
Public Debt, incl. guaranteed	12.0 ^{1/}
Non-Guaranteed Private Debt	..
Total outstanding and Disbursed	12.0

IBRD/IDA LENDING, (Apr. 1979) (Million US \$):

	<u>IBRD</u>	<u>IDA</u>
Outstanding and Disbursed	77.2	36.5
Undisbursed	<u>158.2</u>	<u>1.6</u>
Outstanding incl. Undisbursed	235.4	38.1

.. not available
 - not applicable

^{1/} Excludes military debt.

^{2/} Ratio of Debt Service of Goods and Non-Factor Services.

XIII. PUBLIC INVESTMENT

1. Major Public Sector Investment Projects, 1979-83

1026. Whether or not economic and social development can be given further momentum in the five-year period from 1979 to 1983 depends on the choice of sound public sector investment projects and on their efficient implementation. The public sector's ability to identify and prepare high-priority projects has been considerably enhanced compared with earlier years. There are now a fairly large number of projects in the pipeline for the Government and external aid agencies to consider for financing. There still remain, however, some important shortcomings in the planning and execution of projects to which reference has been made elsewhere in this report (ref. Chapter XIV).

1027. This chapter of the report presents a list of public sector projects (including some mixed public/private sector projects) for which external financing may be required during the five-year period (1979-83) (Table 72). These projects are at different stages of identification/preparation, which range from mere project concepts to fully prepared projects practically ready for implementation. Many projects, particularly those listed for implementation in 1980 or later will require considerably more work and planning effort before they can reach the implementation stage.

1028. Project Priorities. The projects list includes some 125 projects, involving a total estimated investment cost of about US\$6.8 billion 1/ (with a foreign exchange component of about US\$4.3 billion). 1/ It is clear that an investment of such magnitude will exceed by far the public sector's absorptive capacity and would strain the Government's financial resources. Many projects which are listed for implementation during 1979-80 may well be delayed and some dropped altogether. The list in its entirety does not necessarily reflect the Government's current priorities, at this time, except that some 22 projects in petroleum, road transport, electric power, industry and fisheries sectors which are advanced in preparation and have been singled out for early consideration for financing by external aid agencies (these projects are identified in the Project Briefs; 2/ see references to them in the "Mission's Comment" sections). The Bank Mission has attempted to give the projects listed its own rating ("A", "B", or "C" as indicated in the "Mission's Comment" sections) which are defined as follows:

1/ Preliminary estimates without adequate price and physical contingency provisions.

2/ For full version of Project Briefs see Volume II of the Development Problems and Prospects of Ecuador (grey cover report) No. 2373-EC of June 18, 1979.

- "A": Projects which, prima facie, appear feasible and worthy of pursuing as priority investments;
- "B": Projects which appear to be feasible and can be desirable investment propositions subject to availability of the required investment funds;
- "C": Projects which, on the basis of data available at this time, do not appear to be feasible on technical, economic or financial grounds, or may not qualify for financial support at this time.

The Bank Mission, in an attempt to formulate a project-specific five-year public investment program, has grouped all projects into three broad categories, taking into account the sectoral/subsectoral priorities advanced in this report, status of preparation of proposed projects and relevant intersectoral relationships. Included in the Mission's first category are projects which, in the Mission's judgment, appear to be feasible and should receive priority consideration for in-depth studies and when justified--financing during the 1979-83 period. The Mission's second category includes projects which, in the Mission's opinion, may also be feasible but should have a somewhat lesser priority than those included in the first category. The remaining projects, which constitute the third category, are a mixed group; the Mission has doubts on their priority or feasibility on technical, economic or financial grounds. It should be emphasized, however, that this tentative categorization of projects has been made on the basis of the presently available data; the position may change as feasibility studies are completed or new economic priorities may emerge, or, as new projects--not considered in this list--appear feasible and high in the new socio-economic priorities. It may change also if new projections of market conditions alter their economic rate of return. Finally, displacements of degree of absorptive capacity among public institutions as much as general changes in the absorptive capacity of the public sector as a whole may alter seriously the priority ratings established here. So, the Government, as well as potential external lenders, should take the Mission's listing and ranking as highly tentative and subject to further detailed analysis relevant to each project.

Table 72: PUBLIC SECTOR INVESTMENT PROJECTS: 1979-83

<u>Sectors/Projects</u>	<u>Est. Total Cost (US\$ million)</u>	<u>Est. External Financing Required</u>	<u>Est. Year of Commitment</u>
<u>Agriculture</u>			
<u>Credit/General Agriculture</u>			
Agricultural Storage and Marketing	20.0	10.0 (?)	1980
Cacao Rehabilitation	30.0	10.0	1979
Oriente Oil Palm	50.0	25.0 (?)	1980
Oilseeds Development	33.0	16.5	1979
Livestock Development	19.8	10.0 (?)	1979
Agricultural and Livestock Development in Carchi	132.0	24.5	1979
Milk Production	56.7	31.4	1979
Wheat Production	45.0	35.0	1979
Subtotal	385.5	162.4	
<u>Forestation</u>			
Cotopaxi and Pichincha Forestation	14.3	7.2	n.a.
<u>Irrigation/Drainage</u>			
Churute	4.0	3.0	1979
Manuel J. Calle	21.0	10.5	1979
Samborondon	20.0	10.0 (?)	1979
Chaupi-Palama	45.6	25.6	1980
El Artezan-El Angel-Mira	20.0	10.0	1979
Mocha-Tisaleo-Cevallos	3.6	1.8	1980
Pedro Moncayo	4.4	2.2	1979
Pillaro	12.0	7.2	1980
Pimanpiro	7.2	3.6	1981
Tabacundo	32.0	12.8	1979
Carrizal-Chone	66.0	33.0	1979
Daule-Peripa	220.0	165.0	1980
Santa Elena	150.0	100.0	1979
Jubones	100.0	50.0	1978
Naranjal Siete	32.0	16.0	1981
Rio Jama	42.1	21.5	1979
Subtotal	779.9	472.2	
<u>Land Settlement</u>			
Puerto Illa-Chone	40.0	20.0	1979
Nor Oriente Land Settlement	20.0	10.0	1980
San Miguel de Putumayo	n.a.	n.a.	n.a.
Subtotal	60.0	30.0	

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(Agriculture - Irrigation/
Drainage)

Project Name: Daule-Peripa

Location: Guayas Province

Executing Agency: CEDEGE (Comision de Estudios para el Desarrollo de la Cuenca del Rio Guayas)

Total Estimated Cost: \$220 million (for dam only); total cost: probably \$400 m.

External Financing Required: \$165 million (for dam only)

Expected Year of Commitment: 1980, subject to availability of finance.

Purpose of the Project: To provide for irrigation, drainage and flood control works in the Daule/Peripa basin; power generation; and drinking water supply for the city of Guayaquil. The project, extending over an area of about 32,000 km², would benefit approximately 2 million people. Some 90% of the annual rain in the project area falls during the January - May period. The project would allow year-round crop raising by irrigation, with increased production and diversity of crops.

Project Description: The project will include:

- (a) Daule-Peripa Dam over the Daule River, near its confluence with the Peripa River: The dam will be 80 m. high and 250 m. long, with a storage capacity of 5,400 million cubic meters. It will have two control towers of 9 m. diameter (1,700 m³/s) and three gates (17 m. wide and 8.5 m. high), with a maximum capacity of 3,500 m³/s;
- (b) Lateral dikes amounting to 12 km. in total length, of various heights up to 15 m. (average: 10 m.);
- (c) Power House: Four generators of 65,000 KW each, together with ancillary equipment;

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- (d) Balzar Dam: A dam built on the Daule River, 10 km. from Balzar City, after the confluence of the Daule and Puca rivers.

Under a first stage of development, irrigation, flood control and drainage works over an average of 30,000 ha. will be provided on both sides of the Daule River. In addition, water at a rate of 54 m³/s will be extracted from the Daule River for diversion to the Santa Elena Peninsula (about 44 m³/s of it for agricultural use over an area of 50,000 ha.) and the remainder 10 m³/s to provide drinking water for the city of Guayaquil.

Present Status:

- (a) A feasibility study on the Daule-Peripa dam will be completed by 1978;
- (b) A feasibility study on Balzar dam will be completed by 1979;
- (c) A feasibility study on the proposed irrigation and drainage system over 30,000 ha. of land has been completed. A flood control study is under way;
- (d) A feasibility study on water extraction from the Daule River for diversion to Santa Elena Peninsula has been completed.

Execution Period:

About four years.

Mission's Comment:

The project requires major investment of financial and manpower resources. The mission's priority rating: "C". Alternative investment opportunities in the lower Guayas, with lower cost per hectare than the Daule River development, should be considered before a commitment on Daule-Peripa project as proposed.

DISBURSEMENTS/REPAYMENTS/NET FLOWS: Cumulative to FY74, FY75-79 and FY80-82 (Projected)

Loan No.	Project Name	Cumulative Through FY74	Cumulative					Projected		
			FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82
51	Second Highway (IDA)	7.5	.1							
379	Second Highway	9.0								
501	Livestock Dev.	3.7								
124	Education (IDA)	1.2	1.3	.9	1.0	-	.2	.5		
555	Fisheries	2.1	.7	.6	.2	.1	.1	.5		
173	Second Livestock (IDA)	1.5								
222	Third Livestock (IDA)	2.5	2.7	.9	.5	3.4	.1	-		
721	DFC I	7.6	.2							
930	DFC II	.9	7.6	5.1	2.6	2.0	1.8			
286	Third Power (IDA)	3.7	.9	.8	.4	1.0	-			
425	Milagro Irrigation (IDA)	.1	.2	3.5	.4	.1	.1	.8	.3	-
1030	Water Supply	-	.2	.1	1.0	4.6	3.0	4.8	5.6	3.9
1157	Vocational Training				.2			1.6	2.2	-
1229	Seeds Project					.1	.5	1.0	1.4	-
1230	Technical Assistance					.1	.2	1.0	1.2	1.5
1231	Fourth Highway					1.3	2.5	2.2	3.1	1.4
1255	Second Port				1.0	-	7.6	8.2	10.4	6.2
1359	Third DFC					3.7	15.2	6.3	.8	-
1429	Fifth Highway					.1	3.4	6.8	7.2	-
S006	Technical Assistance II						.1	2.4	3.6	3.6
1459	Agricultural Credit							4.5	5.0	5.0
1644	Rural Development I							2.2	3.3	4.0
1731	DFC IV							10.0	10.0	10.0
	Gross Disbursements	<u>85.1</u>	<u>14.0</u>	<u>11.8</u>	<u>7.3</u>	<u>16.5</u>	<u>34.8</u>	<u>52.8</u>	<u>54.1</u>	<u>35.6</u>
	Principal Repayments	<u>32.4</u>	<u>4.0</u>	<u>4.9</u>	<u>5.4</u>	<u>6.1</u>	<u>5.8</u>	<u>7.9</u>	<u>10.7</u>	<u>13.7</u>
	Net Disbursements	<u>52.7</u>	<u>10.0</u>	<u>6.9</u>	<u>1.9</u>	<u>10.4</u>	<u>29.0</u>	<u>44.9</u>	<u>43.4</u>	<u>21.9</u>
	Interest and Charges	<u>29.5</u>	<u>2.9</u>	<u>3.3</u>	<u>3.5</u>	<u>3.8</u>	<u>5.4</u>	<u>8.0</u>	<u>11.0</u>	<u>14.0</u>
	Net Transfers	<u>23.2</u>	<u>7.1</u>	<u>3.6</u>	<u>-1.6</u>	<u>6.6</u>	<u>23.6</u>	<u>36.9</u>	<u>32.4</u>	<u>7.9</u>

D

THE STATUS OF BANK GROUP OPERATIONS IN ECUADOR

A. STATEMENT OF BANK LOANS AND IDA CREDITS* (as of September 30, 1979)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	-----US\$ million----- (less cancellations)		
				Amount Bank	IDA	Undisbursed
10 loans and 4 credits fully disbursed				85.5	28.0	
124	1968 (IDA)	Ecuador	Education	-	5.2	.5
555	1969	Ecuador	Fisheries	4.3	-	.5
425	1974 (IDA)	Ecuador	Irrigation	-	5.5	1.1
1030	1974	Empresa Municipal de Agua Potable de Guayaquil	Water Supply	23.2	-	13.8
1157	1975	Ecuador	Education	4.0	-	3.8
1229	1976	Ecuador	Seeds	3.0	-	2.4
1230	1976	Ecuador	Technical Assistance	4.0	-	3.6
1231	1976	Ecuador	Highways	10.5	-	5.9
1255	1976	Guayaquil Port Authority	Ports	33.5	-	23.4
1359	1977	Ecuador	DFC	26.0	-	6.9
1429	1977	Ecuador	Highways	17.5	-	13.6
1459	1977	Ecuador	Agriculture	15.5	-	15.5
S006	1978	Ecuador	Technical Assistance	11.0	-	10.8
1644	1978	Ecuador	Rural Development	18.0	-	18.0
1731**	1979	Ecuador	DFC	40.0	-	40.0
Total				296.0	38.7	159.8
of which has been repaid				60.6	0.6	
Total now outstanding				235.4	38.1	159.8
Amount sold				4.1		
of which has been repaid				1.8	2.3	-
Total now held by Bank and IDA				233.1	38.1	
Total undisbursed				158.2	1.6	159.8

*Includes exchange adjustments.
 **Approved but not yet signed.

B. STATEMENT OF IFC INVESTMENTS (as of September 30, 1979)

<u>Fiscal Year</u>		<u>Type of Business</u>	<u>-Amount in US\$ Million-</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1966 & 1972	La Internacional, S.A.	Textiles	-3.7	0.3	4.0
1969, 1973, 1975 & 1977	Compania Financiera Ecuatoriana de Desarrollo, S.A. (COFIEC)	DFC	-	0.4	0.4
1976	Sociedad Agricola e Industrial San Carlos, S.A.	Sugar Mill	5.0	-	5.0
1978	La Cemento Nacional CEM	Cement	<u>12.0</u>	<u>1.0</u>	<u>13.0</u>
	Total gross commitments		20.7	1.7	22.4
	Less cancellations, terminations repayments and sales		<u>3.4</u>	<u>0.5</u>	<u>3.9</u>
	Total commitments now held by IFC		<u>17.3</u>	<u>1.2</u>	<u>18.5</u>
	Total undisbursed		<u>11.5</u>	<u>0.2</u>	<u>11.7</u>

PAST LENDING TO ECUADOR

(By Fiscal Year and in 5-year Sub-periods)

		<u>US\$ Million</u>
<u>FY1950-54</u>		
Loan 94	Highways I (1954)	7.5
		<u>7.5</u>
<u>FY1955-59</u>		
Loan 137	Power I (1956)	5.0
Loan 176	Highway Maintenance (1958)	14.5
Loan 177	Power II (1958)	5.0
Loan 212	Ports I (1959)	13.0
		<u>37.5</u>
<u>FY1960-64</u>		
Loan 379	Highways II (1964)	9.0
Credit 51	Highways II (1964)	9.1*
		<u>18.1</u>
<u>FY1965-69</u>		
Loan 501	Livestock I (1967)	3.7
Credit 124	Education (1968)	5.2*
Loan 555	Fisheries (1969)	4.3
		<u>13.2</u>
<u>FY1970-74</u>		
Credit 173	Livestock II (1970)	1.8*
Credit 222	Livestock III (1971)	10.1*
Loan 721	DFC I (1971)	7.8
Credit 286	Power III (1972)	7.0*
Loan 930	DFC II (1973)	20.0
Credit 425	Milagro Irrigation (1974)	5.5
Loan 1030	Water Supply I (1974)	23.2
		<u>75.4</u>
<u>FY1975-79</u>		
Loan 1157	Vocational Training (1975)	4.0
Loan 1229	Seeds (1976)	3.0
Loan 1230	Technical Assistance I (1976)	4.0
Loan 1231	Highways IV (1976)	10.5
Loan 1255	Ports II (1976)	33.5
Loan 1359	DFC III (1977)	26.0
Loan 1429	Highways V (1977)	17.5
Loan 1459	Agricultural Credit (1977)	15.5
Loan S-006	Technical Assistance II (1978)	11.0
Loan 1644	Tungurahua Rural Development (1979)	18.0
**Loan 1731	DFC IV (1979)	40.0
		<u>183.0</u>
TOTAL		334.7
		=====

* Includes exchange adjustment

** Approved but not yet signed

C. PROJECTS IN EXECUTION

Credit 124-EC - Education Project: US\$5.1 million Credit of June 27, 1968; Effective Date: August 30, 1968; Closing Date: December 31, 1980.

The project has faced difficulties from the start and is now about seven years behind schedule. Many of the 28 schools involved still require some work, consisting primarily in the completion of laboratories and workshops and in the installation or completion of electricity, water and sewerage connections. The credit's closing date has, therefore, been extended a sixth time to end 1981. The new Government has indicated its willingness to complete the project and an inventory of the work remaining to be done has been prepared. The construction/rectification process is progressing slowly.

Loan 555-EC - Fisheries Project; US\$5.3 million Loan of September 5, 1968; Effective Date: September 4, 1969; Closing Date: March 31, 1980.

The first component of the project, tuna purse-seiner financing, was scaled down from 12 to 4 vessels owing to a less than anticipated demand and is now completed. A second component, the Manta Fishing School, is now operational although a dispute with the consultant responsible for the training program has somewhat weakened the school's effectiveness. The detailed design of facilities proposed for Manta Port has been completed. A fish marketing study, the final component of the project, has just begun and should be completed by year-end or early in 1981.

Credit 425-EC - Milagro Irrigation Project; US\$5.5 million Credit of August 17, 1973; Effective Date: January 17, 1974; Closing Date: December 31, 1980.

The project aims at increasing agricultural production in an area covering about 11,300 ha. More than 80 percent of the Credit for irrigation and road infrastructure, equipment and vehicles has been disbursed. However, there is an urgent need to plan and implement on-farm development, including provision of production-supporting services such as applied research, agricultural extension and credit. Land titling is also lagging. Reprogramming of project activities by INERHI--in consultation with the Ministry of Agriculture (MAG) and the National Research Institute (INIAP) and assisted by outside consultants--is nearing completion.

Loan 1030-EC - Guayaquil and Guayas Province Water Supply Project; US\$23.2 million Loan of July 23, 1974; Effective Date: January 29, 1975; Closing Date: June 30, 1981.

Project execution has been delayed by frequent managerial changes, lack of counterpart funds and slippages in the hiring of consultants. As a result, the project is now about three years behind schedule. Recently, project execution has improved and construction is now underway on 90 percent of the project components. Because of the delays, however, the project faces severe cost over-runs and a serious problem of counterpart funds. More specifically, the water company requires US\$21 million equivalent from the Government through mid-CY81 to complete the project. US\$8 million of this amount are needed through the end of CY79 to avoid further major delays. More details on this problem project are contained in section F4 of the briefing book.

Loan 1157-EC - Vocational Training Project; US\$4.0 million Loan of September 3, 1975; Effective Date: November 24, 1975; Closing Date: September 30, 1980.

Project implementation is 2-1/2 years behind appraisal schedule due to frequent managerial changes, serious financial problems and technical difficulties with the design and space standards of the Quito and Guayaquil training centers. A new Vocational Training Law was enacted in October 1978 which is expected to resolve many of the financial and management problems which have been encountered. Bidding for construction of the training centers is expected to take place shortly. The closing date was extended by two years to permit the project's conclusion.

Loan 1229-EC - Seeds Project; US\$3 million Loan of May 24, 1976; Effective Date: October 20, 1976; Closing Date: June 30, 1980.

Project execution and loan disbursement have proceeded more slowly than anticipated, particularly regarding the civil works and equipment for the seed processing facilities to be carried out under the project. However, the implementing institutions (National Seeds Council, Improved Seeds Company, Department of Seed Certification and the Project Unit) have now been established and staffed. Procurement is underway and two experts have been hired. The Government has reviewed the organization and status of the Project Unit and the Seeds Certification Department and has provided them with greater autonomy.

Loan 1230-EC - Technical Assistance Project; US\$4.0 million Loan of May 24, 1976; Effective Date: October 20, 1976; Closing Date: December 31, 1980.

This is one of the Bank's problem projects in Ecuador and disbursements stand at only about US\$400,000, three and a half years after loan signing. The National Rural Development Planning Unit (UNDER) has been established within the Planning Board but delays in hiring of experts as well as its own staff's lack of planning experience has hampered its effectiveness. Preparation of the Guayas and Esmeraldas River Basin studies have experienced substantial delays. Altogether, disbursements are about 2-1/2 years behind schedule. On the brighter side, contractors for the study of the Ambato wholesale market are being selected and a rice irrigation feasibility study is

underway. In addition, the studies for the Tungurahua project financed in FY79 were financed under this loan. The Bank has proposed the possibility of redesigning the project to the new government in order to better tailor it to the country's needs and to speed up disbursements.

Loan 1231-EC - Fourth Highway Project; US\$10.5 million Loan of May 24, 1976; Effective Date: October 13, 1976; Closing Date: December 31, 1979.

After an initial delay of twelve months in the contracting process, all civil works and technical assistance elements under the project are in execution and advancing satisfactorily, although civil works are about six months behind the contractors' schedule. By September 30, 1979, US\$4.6 million had been disbursed. The technical assistance programs are already showing their positive effects on highway planning, engineering and maintenance. However, an extension of the project closing date by about one and a half years is expected to permit completion of the preparation studies for a rural development project in the Puerto Ila-Chone area, as well as civil works.

Loan 1255-EC - Second Guayaquil Port Project; US\$33.5 million Loan of May 24, 1976; Effective Date: March 11, 1977; Closing Date: December 31, 1981.

Although design and price disputes initially hindered the project's execution, works are now progressing satisfactorily and project problems are minor. Dredging and reclamation have been completed, piling and decking of the wharfs have advanced to about 30 percent, and buildings and other structures on land are 20 percent complete. By September 30, 1979, 38 percent of the loan amount (or US\$10.1 million) had been disbursed. Civil works are expected to be completed by August 1980 and the entire project by June 1982. A short formal extension of the closing date may be necessary.

Loan 1359-EC - Third Development Banking Project: US\$26.0 million Loan of February 18, 1977; Effective Date: August 9, 1977; Closing Date: June 30, 1981.

This project is one of the Bank's success stories in Ecuador. Project commitments have proceeded faster than anticipated and disbursements now stand at US\$19.1 million. The new financieras that were expected to receive US\$3 million under this loan, however, have not been able to meet the criteria required for participation. At the Government's request, therefore, the project is being modified to permit these financieras to have access to Bank funds through CFN, Ecuador's largest finance company.

Loan 1429-EC - Fifth Highway Project; US\$17.5 million Loan of September 22, 1977; Effective Date: January 10, 1978; Closing Date: June 30, 1981.

Construction of the Duran-Boliche and the Puerto Ila-Doblones roads is proceeding on schedule. Design changes on the Duran-Boliche road have generated an increase in costs which is expected to be partly offset by a reduction in costs on the other road. Engineering design of feeder roads in

Puerto Ila-Doblones region has been completed, with construction of these roads to begin after the rainy season ends. The study of regional secondary and feeder roads in three southern provinces is proceeding satisfactorily; the final report for this component is being drafted. By September 30, 1979, US\$3.9 million had been disbursed.

Loan 1459-EC - Agricultural Credit I Project; US\$15.5 million Loan of November 3, 1977; Effective Date: June 14, 1978; Closing Date: December 31, 1982.

The Loan continues a program of credit for livestock development financed under three previous loans and credits, and has been broadened to cover crop farms, small rural industries and local consulting services. In addition, there are applied research and technical assistance components. The National Development Bank (BNF), the largest lender in the agriculture sector, delayed participation in the project for over a year but recently signed a subsidiary agreement with the Central Bank. This brought to thirteen the number of banks and financieras that will participate. Arrangements have been made with the Ministry of Agriculture and Livestock (MAG) and a regional development agency (CREA) to coordinate the provision of extension services with development credit to small farmers. Disbursements are now expected to begin.

Loan S-006-EC - Second Technical Assistant Project; US\$11.0 million Loan of November 3, 1977; Effective Date: March 1, 1978; Closing Date: January 31, 1982.

This project has moved ahead at a disappointingly slow pace and eighteen months after effectiveness, only about US\$200,000 has been disbursed from the loan. A contract has been signed for only one of ten selected studies (the Petrochemical Study) and work is progressing on drafting satisfactory terms of reference and on bidding and contracting for some of the others. The project list has undergone revision and a final list is being prepared with the new government. Two of the four experts to be hired under the project have been recruited and are posted; their services are being paid for by UNDP.

Loan 1644-EC - Tungurahua Rural Development Project; US\$18 million Loan of May 11, 1979; Effective Date: September 28, 1979; Closing Date: June 30, 1985.

This integrated rural development project recently became effective and execution is expected to begin soon. A Project Unit has been established and experts are being recruited.

Loan 1731-EC - Fourth Development Finance Project; US\$40 million Loan.

This project was approved June 19, 1979 and is expected to be signed prior to Mr. McNamara's visit to Ecuador in November-1979.

Summary Descriptions

Proposed Bank Lending to Ecuador

During the Next 18 Months

1. Guayaquil Urban Development (\$31 Million, FY80): The project is aimed at building institutional capacity within the Municipality of Guayaquil and the national housing bank (BEV) for future urban development efforts, while directly improving living conditions for about 100,000 persons, ten percent of the population of Guayaquil. Private sector banks would offer artisan credit while the government entity charged with promoting small industry, CENAPIA, would provide technical assistance to small businesses. The Municipality of Guayaquil would build sites and services for 3200 lots in an area north of the city (Alegria), as well as coordinate urban improvements in two slum areas (Guasmo North and Lotización Mapasingue). The Banco de la Vivienda would offer 6,000 home improvement and 3200 construction loans in all project areas plus the Suburbio (the town's largest, oldest slum) as well as carry out a small 500-lot sites and services activity in an area called Floresta. Important emphasis would also be placed on (a) regularizing the land tenure system in neighborhoods benefitted by the project; and (b) involving the community in project execution. This proposed loan would cover 60% of the total cost of \$51 million, including all foreign exchange costs and \$24 million in local costs.
2. Small Scale Enterprise Credit (\$25 Million, FY81S): A complement to the Bank's four DFC loans, this project would strengthen channels of credit to small enterprises and provide technical assistance to public agencies currently responsible for this sector (such as CENAPIA). Interest rates to small entrepreneurs would be consistent with other Bank/Government programs in industrial finance (DFC's III and IV and rural industry), so as to assure positive incentives to financial intermediaries which work with this sector.
3. Highways VI (\$40 Million, 81S): This is a loan to finance (i) improved access to the Oriente region of Ecuador by improving the Río Blanco-Puyo road; (ii) upgrading of about 1,000 Kms. of feeder roads in the provinces of Guayas, Los Rios y El Oro; (iii) preparation of a feeder road program in the Oriente, and (iv) institutional improvements, particularly in the field of road maintenance.
4. Rural Development II (\$25 Million, FY82S): An integrated rural development project involving the towns of Puerto Ila, Chone, Garrapata and Doblones in the central coastal region. Components would include: credit, extension, marketing and storage services, feeder roads and social infrastructure. Feasibility studies for this project were prepared under the Fourth Highway loan, as an analysis of areas of influence of highways being constructed.
5. Petroleum I (\$70 Million, FY82S): Contents, amount and timing depend on Bank/Government agreement on selection of components. Appraisal of this project has been delayed due to lack of progress on the part of CEPE, the government-owned oil company, in preparing necessary studies, and also to government inaction on gasoline price issue (see main text

of Brief). Potential components include (i) rehabilitation of existing oil fields in the Santa Elena peninsula, (ii) secondary recovery in Sacha and Shushufindi oil fields, (iii) construction of an oil pipeline from La Libertad to Guayaquil and (iv) exploration both offshore and in the Oriente regions. The new Government is in the process of defining its priorities among these components. Given the remaining preparation work to be done on the Sacha-Shushufindi portion, one solution (suggested to the government) is the appraisal of a smaller (\$25 million) loan for the immediate future (FY82S) which could include Santa Elena rehabilitation and seismic exploration. A second much larger project for funding in some two years would continue to be prepared.

6. Our pre-condition to proceeding with any petroleum sector lending is government action on domestic petroleum pricing. Recent conversations with the new Government indicated that new cabinet officials are at work on a politically palatable set of actions (e.g. higher charges for bunker fuel used in generation of thermoelectricity, higher license and import charges on large cars, and introduction of a higher octane gasoline at increased price).

7. Third Port (\$10 Million, FY80R): Studies are completed for this with exception of market analysis of demand for fish products, for which a contract was recently executed. The new government is reviewing development priorities but has indicated its interest in concentrating on Manta Port in the immediate future.

8. Power Distribution (\$30-40 Million; FY82R): Discussions concerning this project have only recently begun, but preparation of the project by INECEL is advanced. The second phase of a major electrical interconnection system would be financed, including construction of transmission lines and substations.

AS OF 30 JUNE 1979

Project number and title	Code	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
					UNDP	Government counterpart contribution
AGRICULTURE, FORESTRY AND FISHERIES (0500)					4,663,669	4,034,621
ECU-71-522 STRENGTHENING THE NATIONAL EXTENSION SERVICES AND INCREASING AGRICULTURAL PRODUCTION IN THE IRRIGATION DISTRICT	50	FAO	01/71	01/79	1,141,386	1,443,321
ECU-71-527 STRENGTHENING OF THE FORESTRY SERVICE	40	FAO	09/73	07/77	973,767	1,182,862
ECU-72-002 AGRICULTURAL STATISTICS	80	FAO	04/72	09/78	192,742	27,148
ECU-72-018 AGRO-INDUSTRIES	10	FAO	04/74	02/80	416,047	428,497
ECU-73-005 DEVELOPMENT OF THE VETERINARY LABORATORIES IN THE NATIONAL INST. FOR HYGIENE	20	WHO	02/74	01/78	733,892	567,119
ECU-74-025 FACULTY OF AGRONOMY & VETERINARY MEDICINE, UNIVERSITY OF GUAYAQUIL	60	FAO	12/74	02/77	65,983	
ECU-77-005 DESARROLLO FORESTAL	40	FAO	09/78	09/80	40,000	
ECU-77-011 PROYECTO INTEGRADO DE DESARROLLO AGROPECUARIO (PIDA/SIERRA)	10	FAO	12/77	01/79	37,181	
ECU-78-007 RACIONALIZACION Y MODERNIZACION DEL MERCADO AGROPECUARIO	60	FAO	03/78	01/82	690,241	269,434
ECU-78-008 APOYO A LA CAPACITACION DEL PERSONAL PROFESIONAL Y TECNICO DEL MINISTERIO DE AGRICULTURA Y GANADERIA	60	FAO	03/78	01/81	372,410	116,238
CULTURE AND SOCIAL AND HUMAN SCIENCES (1000)					484,517	754,873
ECU-78-014 APOYO A ACTIVIDADES EN CIENCIAS SOCIALES PARA EL DESARROLLO FLACSO	40	UNESCO	06/78	01/81	484,517	754,873
EDUCATION (1500)					2,355,681	8,095,667
ECU-72-012 IMPROVEMENT OF ACADEMIC TRAINING	23	UNESCO	07/74	01/80	481,204	
ECU-72-021 STRENGTHENING OF THE EDUCATION SECTOR	10	UNESCO	02/74	01/80	1,080,909	
ECU-78-012 FORTALECIMIENTO DE LA NUCLEARIZACION EDUCATIVA PARA EL DESARROLLO RURAL	20	UNESCO	02/79	02/82	650,000	8,086,642
ECU-78-023 ESTRUCTURA SOCIAL Y PROBLEMAS EDUCACIONALES RURALES	10	UNESCO	08/78	08/79	74,272	9,029
ECU-78-024 STRENGTHENING OF THE NATIONAL PLAN FOR EQUIPMENT OF MID-LEVEL TECHNICAL EDUCATION	10	UNESCO	02/79	01/81	69,300	
GENERAL ECONOMIC AND SOCIAL POLICY AND PLANNING (2000)					6,838,337	2,212,195
ECU-72-017 AGRICULTURAL PLANNING, PROGRAMMING AND MARKETING	12	FAO	09/73	01/79	703,859	
ECU-74-001 IN-SERVICE TRAINING FOR PERSONNEL OF REG. DEVELOP. ORGANIZATIONS	20	UN	08/74	10/78	8,474	14,440
ECU-74-003 PUBLIC SERVICE TRAINING, QUITO	20	UN	04/74	01/79	405,902	103,646
ECU-74-004 OPERATIONAL PLANNING	11	UN	05/74	01/82	760,160	90,938
ECU-74-005 NATIONAL REGIONAL PLANNING	11	UN	05/74	01/79	731,303	160,288
ECU-74-008 IMPROVEMENT OF THE MANAGEMENT OF PUBLIC FUNDS	20	UN	11/74	09/78	89,366	20,436
ECU-76-003 ASISTENCIA AL PROGRAMA DE DESARROLLO ESTADISTICO	11	UN	11/76	01/78	59,449	74,249
ECU-76-004 PROGRAMACION QUINQUENAL	11	UNDP	09/77	01/80	9,800	7,220
ECU-77-002 PROGRAMACION QUINQUENAL SECTOR AGROPECUARIO FORESTAL	12	FAO	08/77	06/79	11,125	
ECU-77-007 PLAN REGIONAL DE SUR	11	UN	08/77	01/80	108,797	8,772
ECU-77-009 ASISTENCIA PARA ACTIVIDADES NACIONALES DE PREINVERSION	20	IBRD	09/77	01/82	451,555	244,945
ECU-77-016 FORTALECIMIENTO DE LA CAPACIDAD DEL SECTOR PUBLICO CON ENFASIS EN SECTORES PRIORITARIOS DE DESARROLLO	11	UN	08/78	01/82	450,000	424,548
ECU-77-018 ASISTENCIA EN PLANIFICACION Y FORMULACION DE POLITICAS PARA DESARROLLO RURAL INTEGRADO	11	UN	04/78	03/79	79,122	34,487
ECU-78-006 FORTALECIMIENTO DEL SISTEMA DE PLANIFICACION AGROPECUARIA	12	FAO	03/78	01/81	587,529	
ECU-78-015 FORTALECIMIENTO DEL SISTEMA DE COOPERACION TECNICA	11	UN	03/78	01/80	200,995	

ECUADOR

TUNGURAHUA RURAL DEVELOPMENT PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of Ecuador.
Amount: US\$18.0 million
Terms: Payable in 17 years, including 6 years of grace,
at 7.35 percent interest per annum.

Relending Terms for
Agricultural Credit
Component:

Repayment period for subloans would be up to twelve years, including grace periods of up to five years. Up to 90 percent of subloans could be rediscounted at the Central Bank at interest rates that would yield spreads of between three and six percent to the financial intermediaries. Interest rates to ultimate beneficiaries would be 11 percent for small farmers and 14 percent for others.

Project Description:

This project aims at improving the productivity, income and general living conditions of 16,000 poor rural families (about 83,000 persons) living in Ecuador's Tungurahua province. Project components include (i) credit and other agricultural support services; (ii) the rehabilitation and expansion of irrigation works; (iii) construction and improvement of rural roads; (iv) rural electrification; and (v) other social services, e.g., provision of potable water and health services.

Special Risks:

The only special risk which this project faces would be the occurrence of organizational and management problems owing to Ecuador's little experience, to date, with integrated rural development projects of this type.

Estimated Costs:

	-----US\$ million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
(a) Irrigation & On-farm Works	2.6	1.8	4.4
(b) Credit	5.2	2.4	7.6
(c) Tree Plant Production	0.1	0.1	0.2
(d) Storage Facilities	0.1	-	0.1
(e) Extension Services and Training	1.3	0.7	2.0
(f) Roads and Electrification	1.0	0.8	1.8
(g) Social Services	1.1	0.5	1.6
(h) Chibuleo Area Development	0.5	0.3	0.8
(i) Consultant Services	0.2	1.0	1.2
(j) Project Administration	2.1	0.5	2.6
<u>Baseline Costs</u>	<u>14.2</u>	<u>8.1</u>	<u>22.3</u>
Contingencies: Physical	1.1	0.7	1.8
Price	3.8	2.1	5.9
<u>Total Project Costs</u>	<u>19.1</u>	<u>10.9</u>	<u>30.0</u>

Financing Plan:

	-----US\$ million-----		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Bank	7.1	10.9	18.0
Government	11.0	-	11.0
Beneficiaries	<u>1.0</u>	<u>-</u>	<u>1.0</u>
Total	19.1	10.9	30.0

Estimated Disbursements:

	----- US\$ million by Fiscal Year -----						
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Annual	2.25	3.25	4.00	4.00	2.50	1.50	0.50
Cumulative	2.25	5.50	9.50	13.50	16.00	17.50	18.00

Rate of Return:

The economic rate of return is estimated at 21 percent for the components of the project with directly quantifiable benefits, which represent 74 percent of the total costs of the project.

Appraisal Report:

Report No. 2154-EC dated November 28, 1978.

INTRODUCTION

The following description of the Tungurahua Rural Development Project is extracted from the President's Report recommending it to the Board and issued on December 6, 1978. The discussion of the rural sector has been reduced to a brief sketch of its institutional framework and a paragraph on Bank lending for agriculture since the sector's general characteristics are discussed in the "Economic Situation" section of this briefing book (see F.3). Following Part II (The Project) of this note, there is a short paragraph updating the status of project execution.

PART I - THE RURAL SECTOR

Institutional Framework

1. The Ministry of Agriculture and Livestock (MAG) has overall responsibility for the planning, programming, and implementation of Ecuador's agriculture/rural development effort. There are a number of autonomous agencies attached to MAG that deal with land reform, irrigation, agricultural research, storage and marketing. Several regional development agencies are also associated with MAG. Extension services offered by MAG were, until recently, organized along specific crop lines. Given the diversity that is typical of farming in Ecuador, however, MAG is in the process of restructuring itself in order to be able to provide integrated extension services to individual farmers.
2. Institutional credit to the agricultural sector has grown rapidly in recent years, from about US\$66 million in 1971 to about US\$500 million in 1977. About 70 percent of this credit is provided by the state-owned National Development Bank (BNF) and the remainder by commercial banks. Despite the rapid expansion of institutional credit for agriculture, only about 10 percent of farmers have access to it. Many other farmers utilize a large but unquantified volume of informal credit available from suppliers or money lenders.
3. Created in 1966 as an autonomous unit reporting to MAG, the Ecuadorian Water Resources Agency (INERHI) is responsible for developing irrigated agriculture and ensuring the rational use of water resources.

Bank Group Lending

4. Bank Group lending for agriculture in Ecuador has been growing and now includes seven loans and credits totalling US\$43.5 million. The bulk of our lending in the sector, four loans and credits for US\$31 million, has helped finance credit projects. The Bank Group also extended a US\$5.5 million credit (425-EC) in 1973 for an integrated agricultural development project based on irrigation in the Milagro area of the Costa. A loan to improve seeds (Loan 1229-EC approved on March 30, 1976) and a technical assistance loan (Loan 1230-EC) approved on the same day, round out Bank Group lending for agriculture in Ecuador.

PART II - THE PROJECT

5. The proposed project was prepared by the staff of MAG and INERHI with the assistance of international consultants. Financing for the project's preinvestment studies, which were submitted to the Bank in October 1977, was provided under the Bank's technical assistance loan (1230-EC). The project was appraised in November 1977. Negotiations of the loan took place in Washington from November 15 through 22, 1978.

The Project Area

6. The project would be carried out in the Province of Tungurahua which is located in the Ecuadorian Andes approximately 140 km south of Quito (see the attached Map. Tungurahua is relatively small. Its total area is only about 3,200 km² and its population is 270,000, two-thirds of whom live in rural areas. The province's only large town is Ambato, the provincial capital.

7. Tungurahua's topography is typical of that found in the Ecuadorian Andes. Its altitude ranges from 2,400 m to over 6,000 m and the province consists of rugged mountains, steep slopes and fertile but narrow valleys. The province's climate is temperate and has little seasonal variations. Precipitation is relatively even throughout the year but rainfall varies between about 500 mm and 1,000 mm per annum within the province, depending on altitude and air currents. Precipitation tends to be low at the valley floors.

8. The project area of about 300 km² is located just south of Ambato and is inhabited by about 83,000 people. Population density is high, 277 per km², and most of the 16,000 families living in the project area are poor "minifundistas" farming between less than one and three ha per family. They are engaged in subsistence agriculture and their principal crops at present are potatoes, vegetables and fruits.

9. Infrastructure and support services in the project area are generally deficient. Although the province has a fairly extensive main road network linking it to Quito and Guayaquil, rural roads -- particularly at higher altitudes -- are few and poorly maintained; they become practically impassable following heavy rains. Existing irrigation systems supply water to a total net area of 6,700 ha in the project area. Virtually all distribution canals are unlined, however, and supply water irregularly. INERHI has reported that water losses in the distribution system reach 60 percent. Of the 13 villages in the project area, only five have potable water supply systems and only three of these provide house connections. The remaining two systems offer only public standpipes. Other villagers and members of the widely dispersed population draw water from the irrigation canals or springs. Rural electrification is also deficient. Only eight of the 13 villages have electricity and only about 80 percent of the persons living in these eight villages have direct electrical connections.

10. As in the case of infrastructure, health and education services within the project area need improvement. Adult illiteracy is estimated at about 30 percent and many children living in the countryside do not attend schools because these are concentrated in or near villages. The health situation is worse. There are only 25 hospital beds in the area (one for every 3,320 inhabitants) and only one doctor per 7,800 persons, one dentist per 23,000 and one auxiliary nurse per 2,700 inhabitants. Health conditions are generally poor with most illnesses resulting from respiratory, skin and parasitic diseases.

11. Extension work has focused mainly on development of the paramo, cold and damp regions in the project area found above 3,000 m. Extension services for the project area as a whole are poor and none are offered to farmers in irrigated areas. Credit is provided principally by the National Development Bank (BNF). Only 10 percent of the farmers in the project area have access to institutional credit, however, and nearly two-thirds of the total credit volume goes to 15 percent of these borrowers. The small farmers in the project area have only limited marketable surpluses and practically no storage facilities. About two-thirds of the area's output is harvested and sold between April and July with 70 percent of this being sold in Ambato, the province's main marketing center.

Project Objectives and Description

12. The objective of the proposed project would be to improve living conditions for some 16,000 poor rural families (about 83,000 persons) in Tungurahua province by increasing their incomes through increased productivity and by providing them with an improved infrastructure base and social services. This project would be the first Bank-supported integrated rural development effort in Ecuador.

13. The proposed project would include:

- (a) rehabilitation and expansion of irrigation systems and on-farm works on 1,800 ha in the Quero-Ladrillos area. This would benefit about 2,300 farm families;
- (b) on-farm works on 7,800 ha of irrigated land in the Huachi-Pelileo area benefitting about 9,700 farm families;
- (c) support services, including provision of credit and storage facilities, to improve agricultural production on the above-mentioned irrigated area and on 18,000 ha of rainfed lands in the Quero and Chibuleo areas where an additional 4,000 farm families dwell;
- (d) construction and improvement of the rural roads and rural electrification networks;
- (e) provision of social services including potable water, latrines, health facilities and community centers; and

- (f) consultant services to assist the project unit and to carry out studies for follow-up projects.

The project would be carried out over a six year period (1979-85). It would be administered by MAG, through a project executing unit, in accordance with arrangements described in paragraphs 54 through 60.

14. About 20 percent of project expenditures would be for irrigation improvements. In the Quero-Ladrillos area, these works would consist of a water diversion structure, the rehabilitation (including lining) and construction of about 28 km of main and secondary canals, the installation of six siphons and the improvement of on-farm irrigation works. In the Huachi-Pelileo area, the emphasis would be on improving on-farm irrigation. In both cases, water would be delivered to blocks of approximately 100 ha each. Farmers within these blocks would establish water user directorates which would participate in carrying out on-farm works.

15. Agricultural support services would be the project's single largest component accounting for nearly half of costs. Most of this would be for credit to farmers and farm cooperatives. Medium- and long-term credit would be provided for incremental farm inputs such as seeds and fertilizers, and for on farm investments such as fencing, agricultural equipment, cattle development and tree planting. In addition to credit, extension services would be intensified in the project area and an existing fruit tree and forestry seedling nursery would be expanded. Three farm produce collection centers would also be constructed. Included in this component would be a first phase effort to provide infrastructure and services to the Chibuleos area, the poorest region in the province. This area of 3,000 ha is inhabited by an indigenous population of about 5,000 people who live in a subsistence economy.

16. Under the project, about 28 km of new feeder roads would be built and about 95 km of existing feeder roads would be improved. The electrical networks of the villages of Quero and Pelileo would also be improved and extended.

17. The social services component would include the installation of 16 potable water supply systems to serve 17,000 beneficiaries. Drinking water would be supplied through public standpipes located in villages and at strategically placed points that would serve the more widely scattered population. It would also provide for the construction of about 7,600 latrines which would benefit about 50,000 persons. Funds would also be earmarked to construct, furnish and equip two new health subcenters and eight new health posts; two existing health posts would be renovated and vehicles would be purchased for the use of health services personnel. Finally, 20 community centers would be provided under the project.

18. Financing would be provided for about 90 man-months of consultants' services. All consultants would be recruited internationally. Their terms of reference were agreed upon during negotiations. These consultants would be retained, *inter alia*, to help administer the project and to strengthen extension services. In addition, the project would provide funds to help prepare a possible follow-up project in Tungurahua province and the second

phase of the Chibuleo area development discussed above. The Government would prepare terms of reference for these studies and submit them to the Bank for approval not later than 12 months after the Loan Agreement's signing.

Project Implementation

19. The proposed project is a multifaceted one which would require the participation of several ministries and Government agencies as well as local farmers. MAG would have overall responsibility for carrying it out and would establish a Project Unit for this purpose. The Project Unit would be headed by an experienced Director, whose qualifications, terms and conditions of employment would be satisfactory to the Bank. MAG has already identified a qualified person for the Director position and this candidate attended negotiations. The Project Director would be assisted by consultants including specialists in administration and extension services as well as an agricultural engineer and a horticulturist. These consultants, and their terms and conditions of employment, would also be acceptable to the Bank. Because of their importance to the project's start-up, appointment of the Project Director and of the consultant for administration would be a condition of the loan's effectiveness. The other consultants would be recruited no later than six months after the signing of the Loan Agreement.

20. The Project Unit would be directly responsible for execution of this operation. It would manage and coordinate the sundry activities of the participating agencies and be directly responsible for construction of the project's road, storage facilities and community centers components. It would also hire consultants, organize farmer cooperatives, prepare and implement training programs, handle tree-plant production and the development of the Chibuleo area. The Project Unit would draw up an annual investment plan and budget as well as a summary of projected expenditures. This would be submitted to the Bank at least two months prior to the start of the year in question.

21. MAG would provide the Project Unit's extension staff. In order to ensure that the extension personnel necessary for project activities would be available without affecting MAG's ongoing extension services elsewhere, the project would include the training of extension agents as well as the incremental costs of extension personnel. In addition MAG, together with the Project Unit, would prepare a plan for the implementation of the Chibuleo area development component. This plan would be submitted to the Bank not later than six months after the signing of the Loan Agreement. INERHI would be responsible for the final design and construction of the project's major irrigation works. A condition of disbursement for the Quero-Ladrillos irrigation works would be that the Bank had approved the final design for these works. INERHI would also, together with the Project Unit, be responsible for the provision of technical assistance in connection with on-farm irrigation works. It would also organize the water user directorates and would operate and maintain the major irrigation network.

22. The Ecuadorian Institute for Sanitary Works (IEOS) would design and construct potable water improvements, latrines and health facilities. Once constructed, local communities, assisted by IEOS, would operate and maintain the potable water systems and latrines. The Ministry of Health would be responsible for staffing and operating the health facilities.

23. The Ambato Power Company would prepare a plan for the rural electrification component and would submit it to the Bank for approval not later than one year after the signing of the Loan Agreement. The company would then be responsible for this component's execution. After the Project Unit has completed the rural roads component, Tungurahua's Provincial Government would look after their maintenance.

Cost and Financing

24. The project's total cost, net of taxes and duties, is estimated at US\$30 million. Its foreign exchange component is about US\$10.9 million, equivalent to 36 percent of project costs. The proposed loan of US\$18.0 million would cover 60 percent of project costs, including the entire foreign exchange component and US\$7.1 million of local costs. The Government would contribute US\$11.0 million; this would cover about 38 percent of project costs. The balance -- about US\$1 million -- would be provided by the project beneficiaries themselves. To ensure that funds would be readily available in a timely manner for project start-up and execution, the Government would establish, by June 30, 1979, a revolving fund in the Central Bank for the use of the Project Unit. It would deposit therein the equivalent of US\$500,000 and replenish the fund, as needed, so as to maintain it at that level.

On-Lending Arrangements

25. Credit to the ultimate beneficiaries would be made available by both the BNF and private commercial banks. Participating financial intermediaries would be responsible for determining the creditworthiness of prospective sub-borrowers and would then be able to rediscount up to 90 percent of subloans made with the Central Bank. The eligibility of subloans for rediscounting through the Central Bank would be determined -- on the basis of the economic, technical and financial soundness of their supporting investment plans -- by the Project Director of the Agricultural Credit Unit within MAG, which was created under previous Bank credit projects (Credits 173-EC and 222-EC and Loans 501-EC and 1459-EC).

26. The subloans would have terms of up to twelve years with grace periods of up to five years. The Ecuadorian Monetary Board would establish the interest rates at which subloans are rediscounted at the Central Bank, and such interest rates would yield a minimum spread of three percent and a maximum spread of six percent to the financial intermediaries. Interest rates to the ultimate beneficiary would be a minimum of 11 percent for small farmers, or cooperatives composed of small farmers, and 14 percent for others. At least 90 percent of the total amount of all subloans would be for small farmers.

Recovery of Costs

27. Under Ecuador's 1972 Water Law, the beneficiaries of Government financed irrigation projects must pay for the operation and maintenance (O & M) of the irrigation systems and for the cost of these works. INERHI is entrusted with the responsibility of fixing water tariffs which would

permit this. During the course of negotiations, assurances were obtained that these water charges will be sufficiently high (i) to cover all O & M associated with the project's irrigation component; and (ii) to permit the full recovery of the investment cost of these works. This cost would be periodically adjusted to take account of inflation.

28. The cost of the tree seedlings would be fully recovered through adequate sales prices (Section 3.07 of the draft Loan Agreement). However, no direct recovery of capital costs is expected on investment incurred for roads, electrification, storage facilities or social infrastructure. Beneficiaries would, however, take care of the operation and maintenance of the potable water systems, latrines, community centers and storage facilities through community organizations including the traditional Ecuadorian system of self-help known as the minga.

Economic Justification

29. The proposed project would improve living conditions for an estimated 16,000 poor farm families (approximately 83,000 persons) living in the project area. Well over 90 percent of these persons presently have annual per capita incomes below US\$250 and are amongst Ecuador's relative poor. Moreover, 65 percent of them are subsistence farm families with per capita incomes from agriculture at or below US\$60 per annum, the "absolute poverty" level in Ecuador.

30. As the result of the credit, extension services and improved irrigation facilities which this loan would help finance, the project beneficiaries' agricultural output is expected to increase significantly. Farmers' incomes would rise correspondingly. At full development, an estimated 75 percent of participating farm families would have progressed beyond the present relative poverty level. Most of the remainder of the project's beneficiaries -- the very smallest of the "minifundistas" -- are expected to have augmented their agricultural incomes sufficiently to have crossed over into the present "relative poverty" range, i.e., between US\$60 and US\$250 per capita a year.

31. Based upon the expected yield increases, the economic rate of return is estimated at 21 percent for the components for which benefits can be quantified (accounting for 74 percent of total project costs). The economic return for investments in (i) the rainfed area would be about 36 percent, (ii) the Huachi-Pelileo irrigated area would be about 14 percent, and (iii) the Quero-Ladrillos irrigated area would be about 13 percent. In addition to the economic benefits referred to already, persons in the project area would also enjoy certain non-quantifiable benefits such as improved feeder roads, rural electrification, storage facilities and potable water facilities.

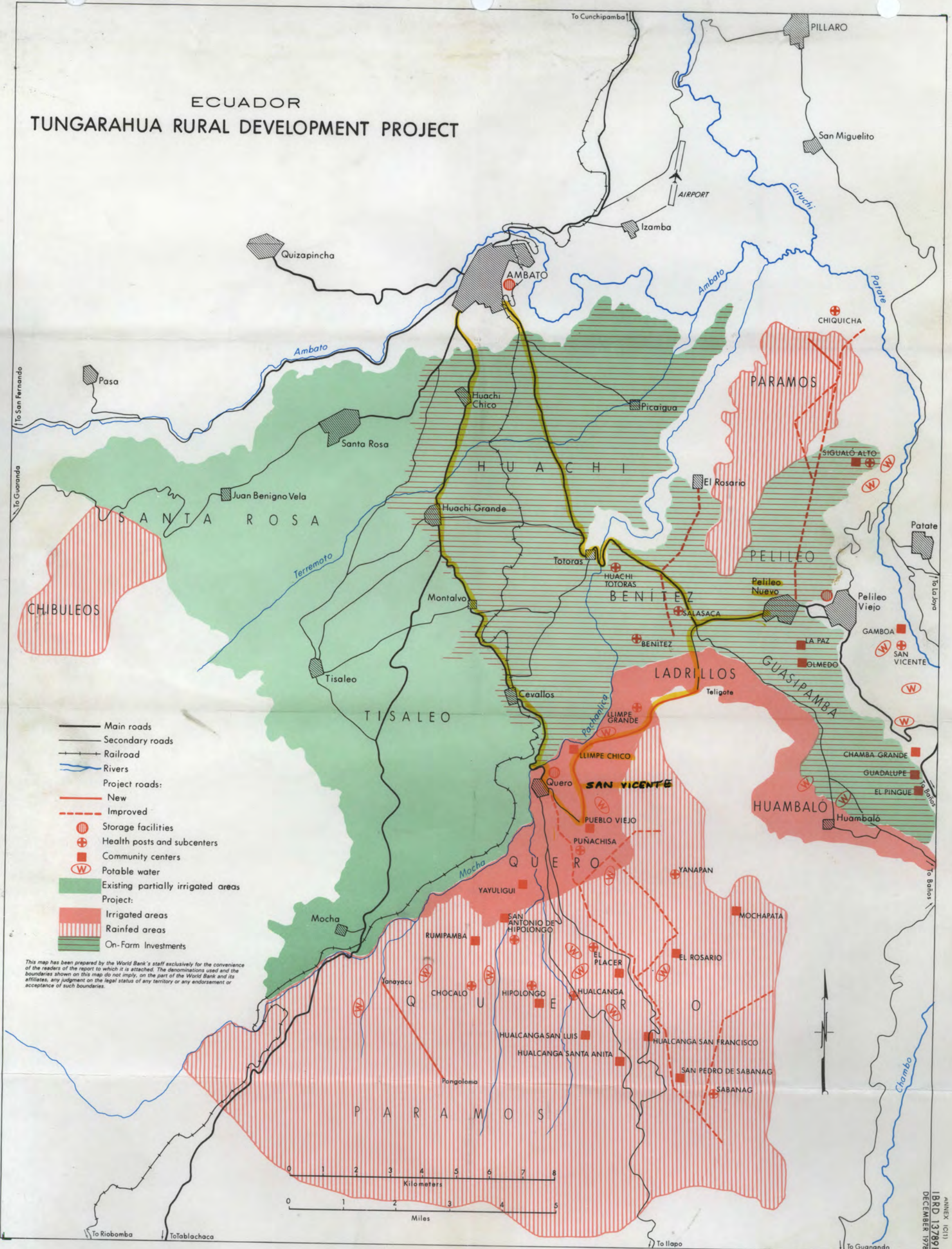
32. In a national context, the project would contribute to attaining self-sufficiency in fruits, vegetables and milk production. By helping to reduce income disparities between rural and urban areas, it would also tend to reduce migration to urban centers. In addition, given the relatively low investment costs -- US\$1,500 per ha and US\$1,600 per family in the Quero-Ladrillos irrigated area, and US\$500 per ha and US\$1,400 per family in the rainfed zone -- the project could be widely replicated. Finally, the

project -- the first of several rural development schemes which the Government plans to carry out in Ecuador -- would afford valuable experience to MAG and the other participating institutions, which would be useful in carrying out similar operations elsewhere.

PRESENT STATUS

Loan 1644-EC was signed on May 11, 1979 and became effective on September 28, 1979. In compliance with the special conditions for effectiveness, the Ministry of Agriculture (MAG) established a Project Unit in Tungurahua and Mr. Flavio Tamayo, a young Ecuadorian economist, was appointed to direct it. Other required technical and support staff are being incorporated in the Project Unit and foreign experts envisaged in the project are now being recruited. Finally, a project fund of US\$500,000 was established in the Central Bank, and project operations have just begun.

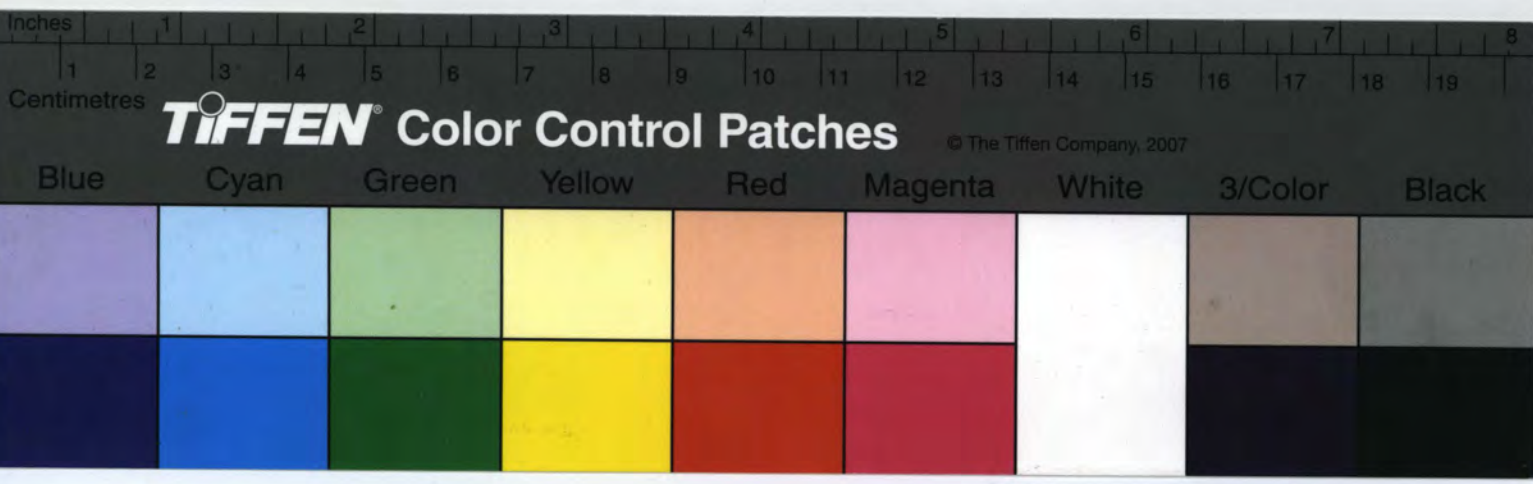
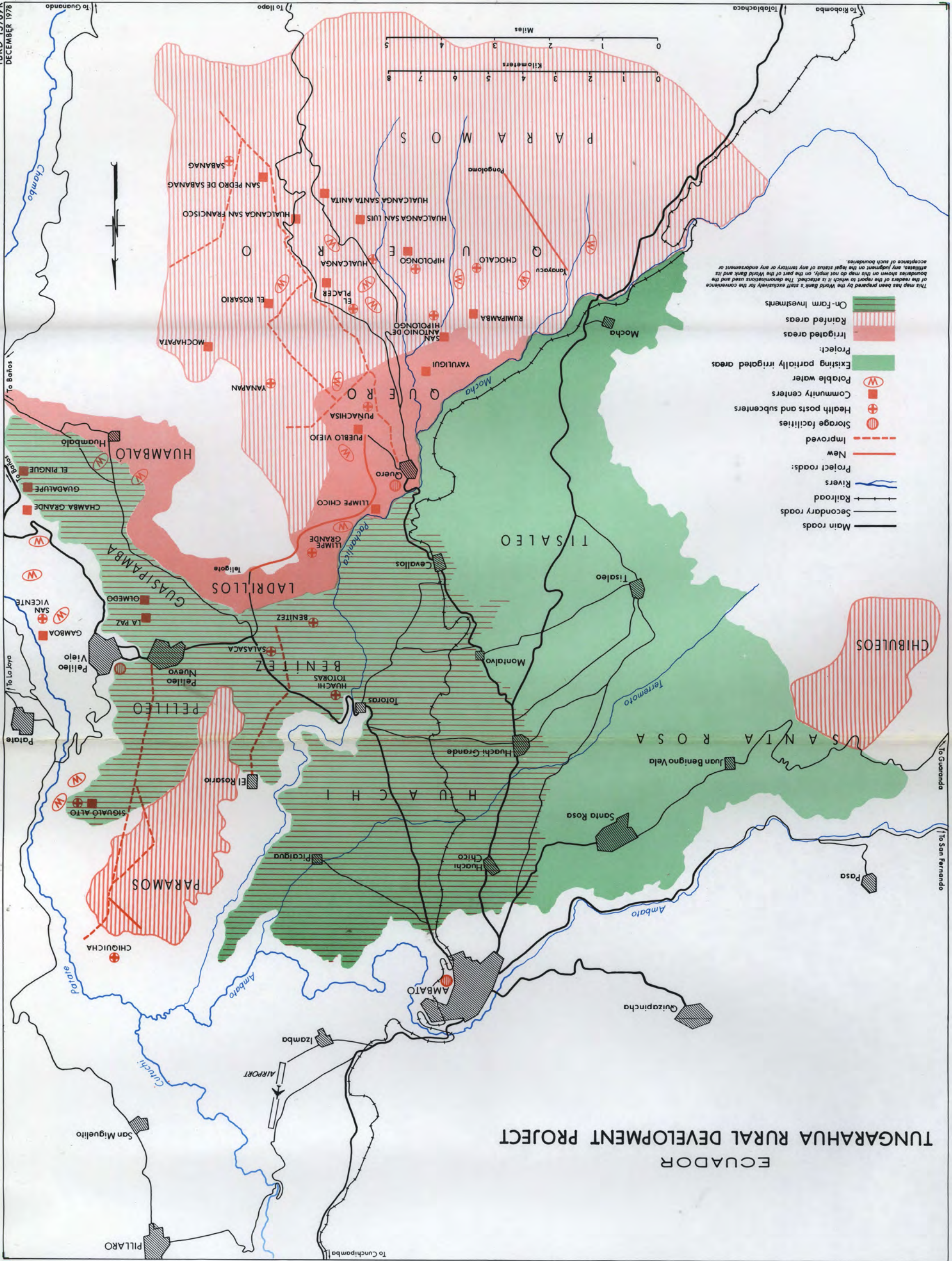
ECUADOR TUNGARAHUA RURAL DEVELOPMENT PROJECT



This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

ANNEX I (11)
IBRD 13789R
DECEMBER 1978





BANK-FINANCED SCHOOLS

1. During the November visit to Ecuador, Mr. McNamara will visit two schools -- Quito's Central Técnico and the Simon Rodriguez School in Latacunga-- which have benefitted from a US\$5.1 million Credit (124-EC) signed in June 1968.
2. The Credit was originally intended to support educational reform in Ecuador by financing improved facilities for secondary, agricultural and technical schools. Under the project, a total of 28 schools were to have been constructed or expanded, and equipped with workshops and laboratories. Because of political instability and weaknesses in the Ministry of Education and in DECE, the Ministry's School Construction Department, the school construction/improvement program dragged out and today, more than 11 years after the Credit was originally made, extensive work is still required. Many of the schools, for example, lack electrical or water connections and cannot, therefore, make full use of their equipment or facilities.
3. Owing to the project's sorry execution record, it has been one of the LAC Region's perennial "problem" projects. The previous military Government was not really committed to completing the project although some progress was made during the past year in drawing up an inventory of remaining works. This showed that with an estimated US\$2.4 million in additional investment, the project could be completed by the end of CY1980. The Association would provide US\$400,000 of this amount from undisbursed Credit funds.
4. In early discussions with Bank staff, the new Government has shown a genuine interest in completing the project and Roldos Administration officials have assured the Bank that the necessary counterpart funds would be made available for this purpose. Consequently, the project has recently been taken off the problem project list although Bank staff will continue to monitor closely the carrying out of the remaining works.
5. The small (175 students) Simon Rodriguez School serves Latacunga, a provincial capital located in the Sierra between Quito and Ambato. Simon Rodriguez is typical of the less successful schools financed under the project. Its condition has deteriorated and facilities are not fully used. Classes are held only in the mornings and students from 12 to 20 years of age concentrate on agricultural courses and receive a secondary degree in agronomy.
6. Quito's Central Técnico, on the other hand, is one of the project's success stories. It is a well established technical school, with a tradition for excellence, which was expanded and equipped with funds from Credit 124-EC. The Central Técnico has over 2,000 students who are competitively selected. They range in age from 12 to 25 years and can specialize in the upper grades in automotive and general mechanics, electricity and electronics. The school runs morning, afternoon, and evening sessions.

NOTE ON GUAYAS BASIN

1. Ecuador's Guayas River Basin in the country's Pacific coast is a region of tremendous agricultural potential. With about 2.8 million hectares of arable land and considerable transport and marketing infrastructure already in place, the area contains about 40 percent of Ecuador's population and produces about 90 percent of Ecuador's rice and 50 percent of its banana, coffee and cacao output. The region's agricultural potential is constrained, however, by rainfall patterns, salt water intrusion, and soil type. Eighty percent of annual rainfall, for example, occurs over a four-month period causing flooding and the heavy clay soils offer poor drainage throughout the year. Another feature of the area is the large but arid Santa Elena peninsula, whose good soils are presently lying fallow because of insufficient water resources.

2. Recognition of the area's agricultural importance has generated interest in developing the region as a whole since the early 1960's, when natural resource surveys began. Since that time, the Spanish, Canadians, OAS, IDB and World Bank have all assisted Ecuador in financing feasibility studies for the area.^{1/} The Guayas Basin Development Study Commission (CEDEGE) was established in 1965 to undertake the preparation of a regional development plan. In 1973, CEDEGE's authority was expanded to include the execution of such plans. After over seven years of study, CEDEGE selected as its initial stage of regional development the Daule-Peripa Multi-Purpose River Development Project, and sought financing from the IDB for its first phase.

Daule-Peripa Project

3. The \$350 million first phase of this project would set the stage for long-range control of water resources in the region -- flood control in the rainy season and irrigation in the dry season-- as well as for the agricultural development of the arid Santa Elena peninsula through a water transfer scheme. Additional benefits are contemplated for hydroelectric power generation at the dam site, and from additional supply of drinking water to the city of Guayaquil.

4. The first phase consists of the construction of (i) a 78 meter high dam on the Daule river, about 10 Km. below the confluence of the Daule and Peripa rivers, creating a reservoir with capacity for six billion cubic meters of water (enough for irrigating a potential 100,000 hectares of land) and future hydroelectric generation of 625 MW, and (ii) irrigation infrastructure for 17,000 hectares on the right bank of the Daule river.

5. The IDB is expected to consider a loan package of \$165 million (\$70 million in FSO funds, \$70 million in complementary financing at commercial rates, and \$25 million from the Venezuelan Trust Fund) in late October/early November for this first phase of the project. The rate of return presented in the IDB project report was only 8.5 percent even with some

^{1/} The Bank's First Technical Assistance Project (Loan 1230-EC) provided \$2.1 million for studies in the basin. Most of this is expected to be used for topographical surveying.

optimistic benefit calculations. The paper suggested, however, that later stages would have higher returns, taking into account sunk costs.

6. A minimum of \$300 million additional investment would be needed to attain benefits of power generation, potable water and extended irrigation (33,000 hectares on the Daule left bank and another 50,000 hectares in the Santa Elena peninsula). A tentative schedule for these investments runs to the end of this century and could require postponement of other development projects, given Ecuador's financial constraints.

7. Bank staff have questions about the first stage proposal as formulated. Our reservations are based on (a) the apparent lack of full analysis of alternatives, including possible lower-cost ways of making use of the basin's potential or different phasing of the proposed scheme and (b) the magnitude of the full-scale regional development investment plan, which could overtax the country's financial resources. The Bank's technical observations, which have been communicated to CEDEGE management, also refer to the project's power generation component. A master power plan defining a least-cost power investment program (including analysis of the Daule-Peripa site) has yet to be completed, although Bank funds have been available for it under Loan S-006 since mid-1977.

8. In the course of exchanges of information, Bank technical staff shared these concerns with IDB personnel but, in late 1978, a copy of a Bank memorandum containing some of these observations was leaked by IDB staff to CEDEGE. This resulted in tense relations between CEDEGE management and Bank staff. CEDEGE feared that the IDB would slow down its processing of the project, or drop it altogether, as the result of our comments. Thereafter, at the explicit request of CEDEGE in January of this year, we agreed not to exchange any further information on Daule-Peripa with the IDB.

9. The Bank's June 1979 Economic Report included a heavily-caveated priority ranking of Ecuador's investment projects, reflecting the findings of a mission which visited the country in mid-1978. This Report ranked the Daule-Peripa project as a low-priority investment on the basis of information available at that time. Extracts of the Report's references to this project and to the Guayas basin are attached.

Extracts on Guayas Basin and Daule-Peripa from
Ecuador - Development Problems and Prospects - Special Report (July 1979)

475. CEDEGE. Established in 1967 as a project preparation agency, CEDEGE (Comision de Estudios Para El Desarrollo de la Cuenca del Rio Guayas) is now implementing projects in its area of responsibility, the lower Guayas Basin. The basin covers 3.5 million ha or approximately half the coastal region of Ecuador. It is situated just south of the equator between a low coastal mountain range and the high Andes. Its climate is hot and humid, with average monthly temperatures ranging between 23° and 27° C and an average annual rainfall of 1,500 mm or higher. The Guayas basin had 2.3 million people in 1971, about one-third of the national population. In the period 1971-73, the population of the basin has grown at an estimated 5.4 percent per annum (5.2 percent in the city of Guayaquil) in comparison with the overall 3.4 percent growth rate for the country, thus indicating the extent of inter-regional migration into not only the metropolitan center but to the rural areas. The migrants, like the rest of the rural population, are confronted with adverse economic and social conditions. Health services and schooling are deficient.

476. The Lower Guayas Basin covers about 1.5 million ha, including the ecologically similar area extending to the Naranjal river. The lowlands have favorable conditions for substantial agricultural production similar to such areas as the river deltas of Mekong, Ganges, Irrawaddy and Mississippi. The soils are excellent but suffer from poor drainage and serious annual floods. According to recent estimates, at least 200,000 ha in the Basin are flooded every year because of river overflow and insufficient drainage of rainfall. The flooding and poor drainage cause large-scale crop losses (mainly rice), serious damage to roads and buildings, and poor sanitary conditions, especially in villages and small towns. Moreover, haphazard construction of roads and dikes, typically undertaken without access to any type of plan, is progressively worsening the situation.

477. CEDEGE has tended to concentrate attention on the potential of the coastal area for irrigation, with only secondary emphasis on flood-control and drainage. ^{1/} This concentration may result in part from a tradition of

^{1/} For example, studies are nearing completion for the Daule-Peripa project. At a cost on the order of US\$500 million to US\$600 million, the project would construct a dam to store 5.4 million m³ of water, irrigate 50,000 ha in the Daule watershed, provide water for Guayaquil and for 50,000 ha of irrigation in the Santa Elena peninsula, and produce 50 million Kwh of electricity. (These studies were initiated in the context of long-run energy development planning, and in recognition of the power-irrigation relationship, the impressive magnitude of the Guayas resource, and the considerable amount of time required to develop and analyze data for projects of this type. Like ongoing studies for other major projects, the Daule-Peripa studies provide an invaluable body of information for the public decision-making process, the appropriate time-phasing of project implementation, and the determination of the optimum national investment pattern for the years ahead.)

irrigation, largely rudimentary, practiced for centuries in the comparatively dry Sierra. The lack of emphasis on flood control and drainage in the Lower Guayas Basin is also due to the fact that a comprehensive long-range development plan has yet to be prepared. In turn, the latter has been caused in large part by absence of adequate basic data such as aerial photography in the center and eastern sections of the basin where flood control has to be carried out through a system of dikes, floodways, drainage canals and river channel improvements because sites for storage reservoirs are lacking. Such works, if properly planned and phased, would contribute to a very significant increase in the agricultural production of this fertile region (preliminary estimates range between 5 and 10 times) and to improving the living conditions of the rural poor. Moreover, these types of works are considerably less costly per ha, and higher yielding, than conventional irrigation projects, as well as being non-redundant with respect to any complementary irrigation development work which may be undertaken in the future.

478. CEDEGE's annual budget is about S/ 330 million, including foreign loans for the 11,000 ha Babahoyo project under implementation. Technical staff numbers about 120.

the long delays are: (i) frequent management changes in EMAP-G; (ii) slippage in the hiring of consulting firms and changes in the firms responsible for project design and supervision; (iii) a year's delay in calling for bids on the Santa Elena pipeline on the grounds that it might conflict with the Daule-Peripa multipurpose project (for details on Daule-Peripa see Section F5 of the brief); and (iv) more recently, a lack of counterpart funds.

4. In 1978, the Government decided to proceed with the Santa Elena pipeline because it was found to be complementary to, and not in conflict with, the Daule-Peripa project. EMAP-G proceeded to award the pipeline's construction contract and work on the pipeline --the project's single largest component-- finally began. As of this writing, work is underway on approximately 90 percent of the project.

The Counterpart Funds Problem

5. The project faces a serious counterpart funds problem which the previous Government failed to resolve despite repeated assurances to the contrary. Unless the new Government provides the necessary funds, the project will be delayed still further and the Bank may be forced to consider a suspension of disbursements. The facts are outlined below.

6. EMAP-G requires S/525 million (\$21 million) from the Government through mid CY81 to complete the project. S/200 million (\$8 million) of this amount is needed through the end of CY79. After many delays, contractors are finally working on most of the project's components. Work may cease, however, unless the S/200 million needed between now and the end of the year is provided in a timely manner.

7. The military Government agreed in writing in 1975 to lend S/425 million (\$17 million) in counterpart funds to EMAP-G and to participating municipalities on the Santa Elena Peninsula. ^{1/} The loan was to bear an interest of three percent and to be repayable over 25 years. In the waning months of the regime, however, the former Finance Minister advised EMAP-G and the municipalities that the Government had unilaterally hardened the terms of the loan to 10 years and eight percent interest as part of a belated effort to introduce greater financial discipline in public sector agencies. EMAP-G and the municipalities would not be able to service this loan, however, unless more generous terms are offered.

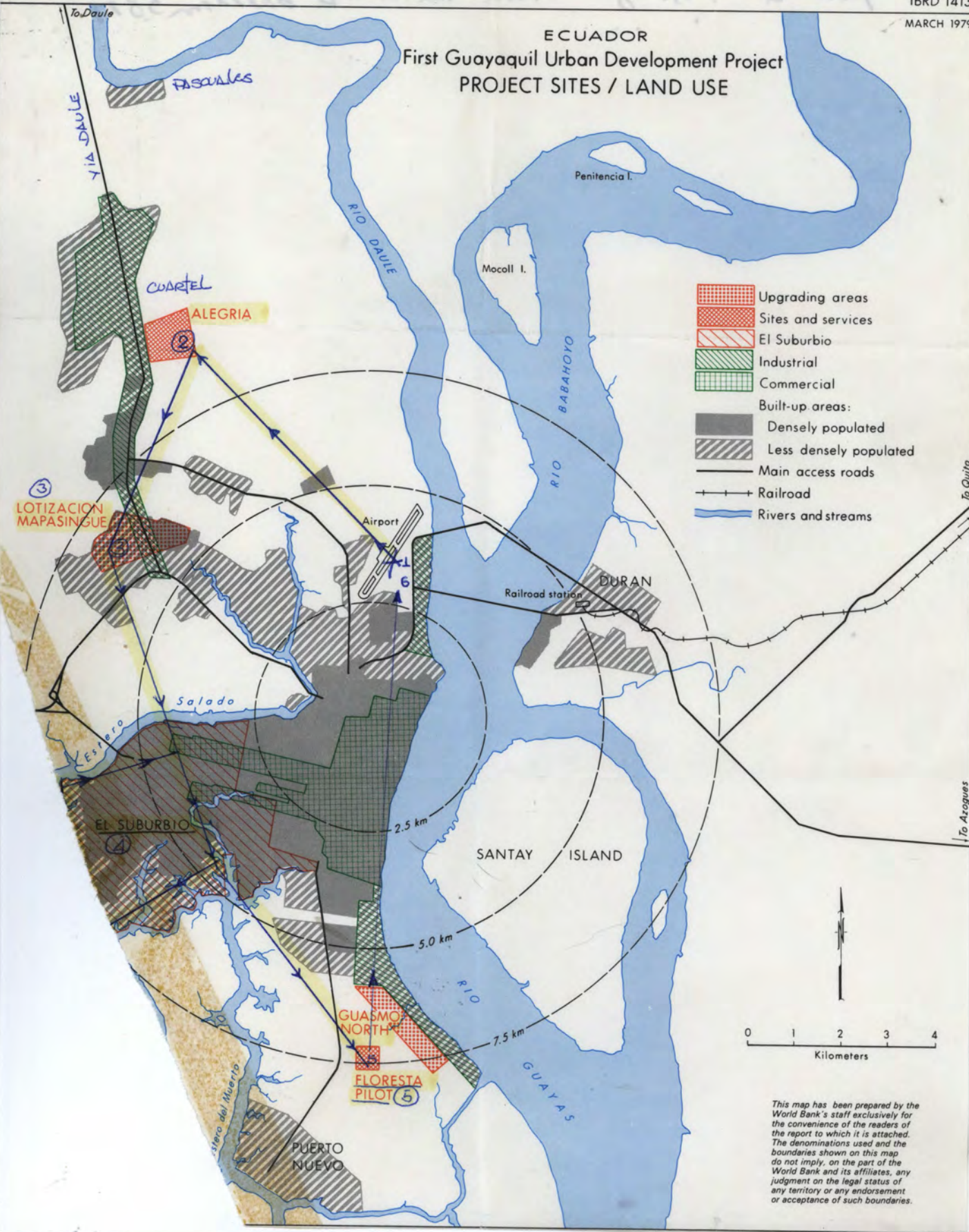
^{1/} This amount corresponded to the best estimate of the project's counterpart needs at that time. Due to cost overruns, in 1978 the Bank estimated that the Government's contribution would have to increase by a minimum of S/100 million (\$4 million). The Government was so informed and promised to provide the additional S/100 million through FONADE (the National Development Fund). As of this writing, however, no action has been taken by the Government to firm up this financing commitment.

8. While the issue of the terms of the Government loan is an important one, it may take time to sort it out and negotiate a new loan agreement between the Government, on the one hand, and EMAP-G and the municipalities, on the other. Therefore, a Bank program mission which visited Ecuador in August, 1979, tried to persuade the new Government officials to provide the urgently needed counterpart funds at once, perhaps in the form of an advance. Bank staff were informed that the Government would review the matter and Leon Roldos, the President's brother, indicated that he would take a personal interest in resolving the problem. In Belgrade, the Ecuadorian delegation reiterated the Administration's concern over the lack of counterpart funds and promised prompt action to provide the needed funds in a timely fashion. As of this writing, however, there has been no evidence of Government action on this matter.

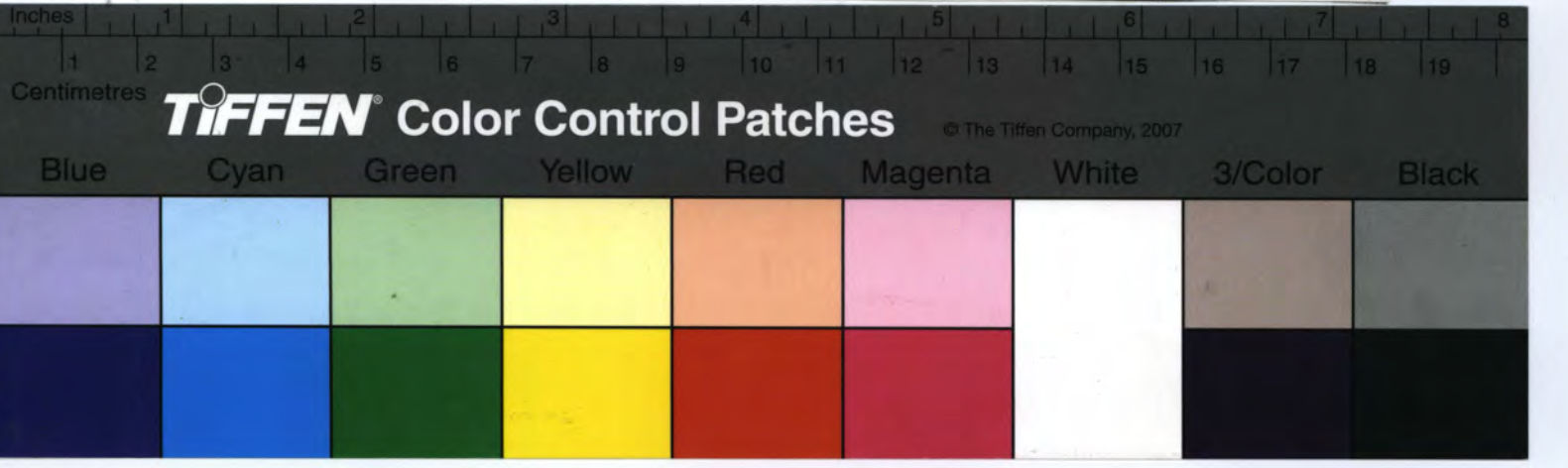
9. A political complication is that the Mayor of Guayaquil, who is also President of EMAP-G's Board of Directors, is a bitter political foe of Assad Bucaram, President of the Ecuadorian Congress. Mr. Bucaram has vowed to have the Mayor replaced and initially, at least, the new Administration appeared hesitant to incur Mr. Bucaram's wrath by providing funds to EMAP-G. As the rift between Roldos and Bucaram grows, however, this political consideration may fall by the wayside.

10. Should the problem of counterpart funds remain unresolved at the time Mr. McNamara visits Ecuador, he may wish to bring it up with the Government. This issue not only typifies the execution problems facing Bank projects in Ecuador but is also the single most important problem facing an ongoing Bank project in the country.

ECUADOR First Guayaquil Urban Development Project PROJECT SITES / LAND USE



This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.



Project number and title	Code	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
					UNDP	Government counterpart contribution
SCIENCE AND TECHNOLOGY (6500)					1,175,663	583,000
ECU-73-006 EXTENSION OF METEOROLOGICAL NETWORKS	50	WMO	01/74	01/80	365,763	166,322
ECU-78-010 APOYO A LA FORMULACION Y DESARROLLO DE UNA POLITICA Y DE UN PROGRAMA CIENTIFICO Y TECNOLOGICO EN EL ECUADOR	10	UNESCO	06/78	01/82	259,900	10,541
ECU-78-016 DEVELOPMENT OF APPROPRIATE TECHNOLOGIES FOR MARGINAL RURAL POPULATION	10	ILO	06/79	05/82	550,000	406,137
SOCIAL SECURITY AND OTHER SOCIAL SERVICES (7000)					768,942	
ECU-72-019 PLAN DE DESARROLLO URBANO DE GUAYAQUIL	40	UN	10/73	01/78	686,858	
S-ECU-76-802 PILOT PROGRAMME FOR LOW COST HOUSING	30	UNIDO	11/76	01/80	82,084	
					1,623,344	643,754
TRANSPORT AND COMMUNICATIONS (7500)						
ECU-72-006 CENTER FOR TRAINING OF TELECOMMUNICATION TECHNICIANS	50	ITU	08/72	01/79	930,247	
ECU-78-019 CENTRO NACIONAL DE CAPACITACION EN TELECOMUNICACIONES	50	ITU	04/78	01/81	543,099	643,754
ECU-78-027 CIVIL AVIATION	40	ICAO	04/79	12/80	150,000	
TOTAL					25,779,811	24,294,933
OF WHICH						
IPF PROJECTS					25,618,984	24,294,933
PROGRAMME RESERVE PROJECTS					4,976	
SPECIAL INDUSTRIAL SERVICES (SIS) PROJECTS					155,851	

— SPECIAL INDUSTRIAL SERVICES (SIS) PROJECT

FODERUMA VISIT

1. FODERUMA, the Central Bank's Rural Development Fund, was established in June 1978 at the initiative of the Bank's former general manager, Rodrigo Espinosa, to support rural development. The FODERUMA approach was to stress community participation in the planning and execution process and to further the use of appropriate technology. Responding to community requests, FODERUMA sends promoters to assist in defining development projects and follows up with credit and grants; it also arranges for technical assistance from appropriate government agencies. Beneficiary groups include both legally constituted and traditional, de facto associations of "campesinos" whose per capita annual incomes are US \$ 300 or less. FODERUMA funded 16 projects during its first year.
2. An initial US\$4 million was contributed to FODERUMA from Central Bank resources, and an additional US\$ 4 million was added in the last days of the former Government. During its first year of operation, FODERUMA disbursed about one-quarter of its resources in grants. The remainder was lent for projects at nine percent interest over periods of one to five years. Fertilizer and other agricultural inputs qualify for shorter terms, while land and equipment credits are on longer terms.
3. Since the transition to democratic rule, FODERUMA has come under criticism, particularly in the Congress. Its detractors have charged that it was little more than a hand-out to gain political support for the military regime and for former Central Bank general manager, Rodrigo Espinosa. More thoughtful critics are concerned that FODERUMA projects are not rigorously appraised or supervised. There is also concern that its high grant components limit its replicability.
4. Bank staff understand that the Central Bank intends to continue the FODERUMA program despite the change of Government and a more traditional new management team in the Central Bank. FODERUMA's future growth, however, is uncertain. Its relatively modest financial endowment and personnel limits FODERUMA's ability to respond to the enormous problem of rural poverty in Ecuador.
5. Mr. McNamara would visit FODERUMA's project in Panecillo, a Sierra indian community located in Imbabura Province. About 125 families (506 persons) have received US\$ 17,000 in credit to finance agricultural inputs, a small forestry and livestock program and artisan production. The community has also received US\$ 29,000 in grants to finance rural road construction, a potable water system and technical assistance. Self-help activities through the "minga" (a cooperative system dating back to the days of the Inca empire) is an important feature of the Panecillo project and have helped FODERUMA's modest financial contributions have a greatly enhanced impact.

TRADUCCION

F O D E R U M A

PROJECT OF INTEGRAL DEVELOPMENT

P A N E C I L L O

LOCATION:

Parroquia Quichinche
Cantón Otavalo
Provincia de Imbabura

NUMBER OF BENEFICIARIES:

125 families
506 persons

PROGRAMS BEING CARRIED OUT: Health care

Community Children Center
Training
Basic hygienic infra-structure
Agricultural production
Forestal production
Livestock production
Handicraft production

INVESTMENT:

Payable funds (credit)	S/. 420.125
Non-payable funds	S/. 727.157

MARGINAL RURAL DEVELOPMENT FUND

- FODERUMA -

PANECILLO PROJECT

1. BACKGROUND .-

The selection of the indigenous-peasant community of 'Panecillo'- in the Imbabura province- to carry out a project of Integral Rural Development of FODERUMA, was made after studying various applications presented to FODERUMA by several peasant organizations of the Imbabura province. The basic criteria for this selection were:

- a) Community highly marginated
- b) Good social organization
- c) High level of integration for the community work
- d) Social impact and broad multiplier effect.

2. GEOGRAPHIC LOCATION

The Panecillo community is located in the parroquia Quichinche, cantón Otavalo, Imbabura province, one hundred and twenty seven (127) kilometers north of Quito . The altitude is two thousand six hundred (2,600) meters above sea level and its climate is cold temperate, typical of the Ecuadorian interandean region.

3. GENERAL ASPECTS

According to the last census data, there are five hundred and six (506) inhabitants in the community, 99 per cent of which belong to the indigenous etno-cultural group. The mother tongue is the Quichua, although the bilingualism Quichua-Spanish is generalized.

Sixty per cent of the population is illiterate. Three per cent of the children in school age attends the community school located three kilometers away from the community.

The absenteeism of the children to school is mainly explained by the fact that they have to start working very young, helping their parents with the agricultural tasks, fetching water, transporting products, taking care of the domestic animals and other productive tasks.

Regarding to health and hygienic conditions, the situation is miserable. Gastrointestinal and pulmonary diseases are quite generalized particularly among children (thirty (30) per cent of children mortality); twenty five (25) per cent of the children under six years old presents symptoms of malnutrition. Before FODERUMA's intervention, no health care services existed in the community, being the Otavalo Hospital the closest Health Center.

The social organization of the community is consolidated in front of the necessity to face priority problems. In January 1967, the community of Panecillo was granted a legal name for its business. From 1974, the social organization improves as a result of solidary activities such as the construction of the road and the community center.

4. PRODUCTIVE ASPECTS

According to the livestock-agricultural census of 1974, there are one hundred and twenty one (121) production units in Panecillo, which comprise an area of one hundred and fifty seven hectares with an average of 1,3 hectares per family. The small land lots aren't of good quality and the agricultural techniques employed are the traditional ones, giving as a result a low productivity.

The main occupation is the agriculture. In order of priority, one grows: corn, broad bean, black beans and barley. The handicraft activity is complementary to the first mentioned and it is mainly expressed through the elaboration of hampers and weavings.

The productive economic unit is the family. The income, both in species and in money, hardly reaches two hundred (200) U.S. Dollars percapita p.a.

One of the critical problems is the lack of access to the resources that generate work . The small land lots for self- consumption and the handicraft production at a family level, do not utilize all the labor potential available in the community. For these reasons a very considerable migratory seasonal flow is produced.

5. FODERUMA's ACTIONS IN 'EL PANECILLO'

In December 1978, the 'punctual action' was carried out; this is a methodology element which permits to initiate the process of investigation-action; it consists of meditation and knowledge of the peasants reality which allows the projection of specific changes in life conditions. This is a joint practice of FODERUMA and the community.

The essential aspect in the whole process is the peasant participation; without this participation any project is imposed and condemned to failure.

The community assemblies, parcial meetings, work groups, support groups are mechanisms of participation of the community which permit the establishment of priority of necessities.

Referring to the "Panecillo" , the prioritary necessities were:

1. PRODUCTIVE ASPECTS

- a) Agricultural program
- b) Blackberry and tomatoes cultivations
- c) Forestal program

A credit of S/. 100,000 (one hundred thousand sucres) was granted for these items.

2. INFRA-STRUCTURE

- a) Desks and benches for the community center
- b) Transformer
- c) Change of water system
- d) Health promoter

Non-payable allowances of S/. 322.000 (three hundred and twenty two thousand sucres) were granted for these items.

Once these punctual actions are taken, one starts the socio-economic-cultural diagnosis of the community which will lead to the elaboration of a marginal rural development project. The community investigates its own reality, determines the objectives and their priorities, lays the strategies out and quantifies the necessary resources. In the Panecillo's diagnosis, the Community established nine objectives, which in a priority order are the following:

- To create new forms of participation together with the new projects.
- To incorporate the 90% of the population between 6-15 years old to the primary education.
- To increase the monetary income
- To increase the species income
- To alphabetize the 50% of the population between 15-40 years old.
- To provide or improve the beds, the cooking place and the storage systems.
- To improve the basic abilities and skills.
- To improve feeding including meat, milk and eggs.
- To strengthen the cultural expressions.

At present, the following programs are being carried out:

1. Apiarian (15 new beehives)
2. Guinea pigs
3. Avian (installations with equipment) *poultry*
4. Porcine
5. Lucern sowing
6. Corn, broad bean and black bean cultivations
7. Fumigation bombs.
8. Looms

The total amount of credit for these items is of S/. 320.135,00 (three hundred twenty thousand one hundred and thirty five sucres).

For training in livestock-agricultural techniques and for the water pipes S/. 298.000 (two hundred and ninety eight thousand sucres) have been allocated.

6. SUPPORT PROGRAMS TO FODERUMA

The basic Health Care, the Community Children Centers, the Peasant Promotion of Women and the Appropriate Technologies are support programs intended to encourage the peasant participation and to reach integral solutions.

COMMUNITY CHILDREN CENTER OF THE 'PANECILLO'

It intends to develop peasant children capacities within the context of their own culture by means of entertainment and art. Sixty children from three to seven years old go to it. The main activities are: clay modelling, painting, education games meant to strengthen the cultural peasant identity. Materials from the same environment are used,

This program allows the participation of parents, peasant promoters and , in general , the whole community. Through an agreement with UNICEF, it has been possible the training of peasant promoters and the dynamism of participation.

BASIC HEALTH CARE

There are two peasant health promoters, elected by their own community , trained by FODERUMA and the Ministry of Public Health. It has been possible to carry out a nutrition census, vaccination campaigns, sanitary education courses, among other activities related to health.

7. INTER-INSTITUTIONAL COORDINATION

To FODERUMA, coordination with other institutions is fundamental in order to utilize the installed capacity and human and economic resources in a rational way

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TRADUCCION

- 6 -

In the "Panecillo" community, FODERUMA has the support of the Ministry of Agriculture and Livestock, whose activities are former to the FODERUMA ones in the community. The Ministry of Public Health contributes with the San Rafael subcenter and the Radiophony Schools of Riobamba keep a literacy program and give technical assistance in different fields.

E

UNDP ACTIVITIES

1. As of June 30, 1979, total UNDP commitments to Ecuador amounted to US\$25.8 million. With the Government counterpart, the total cost of UNDP-sponsored projects comes to about US\$50 million.
2. About 70 percent of the funds provided by UNDP have been earmarked to help development of productive sectors or government organization and management. About a fifth have been assigned to social sectors and the remaining portion to infrastructure.
3. UNDP assistance to productive sectors is mainly concentrated in (i) increasing government efficiency or strengthening its capacity to prepare and carry out projects; and (ii) providing technical assistance directly for productive activities (e.g., forestry, petroleum, plastics industry). Assistance to the social sectors is concentrated in education, health and urban and rural development. Transport and telecommunications are the areas of main infrastructure activity.
4. UNDP's Resident Representative (RR) in Ecuador left in early 1979. Mr. Fernando Cossio, a Bolivian in his mid forties and the Deputy RR, is acting as head of the local office.
5. A detailed breakdown of UNDP's program is on the following pages.

LCIDD
October 1979

F

ECUADOR--Information Media

Ecuador's major urban and cultural centers, Guayaquil and Quito, have increasingly sophisticated media organizations after two decades of rapid development of the communications systems in their regions.

In contrast, there are still some isolated areas in the country in which radio broadcasts are the only source of information for the population.

Although traditionally the printed media have exercised a significant influence on literate and politically conscious Ecuadorians, their impact on the masses has been limited, mainly because of the lack of an adequate transport system and because of illiteracy. One fourth of Ecuador's population, estimated at 7.8 million, is still illiterate.

The expansion of the radio system, and more recently of television, has therefore been particularly significant. There are no recent accurate statistics but the radio stations are now estimated to reach more than half of the population, while television probably has an audience close to 20%.

Press

The readership of the press, which is almost entirely privately owned, is believed to embrace about 10% of the population. The press has been traditionally in Spanish, the official language; yet in rural areas about half of the population speaks the native language, Quechua.

However, the Ecuadorian press is still the most influential medium in the public debate on social problems. New publications constantly appear, and the broadcasting networks have been created in association with the printed media. The largest and more influential national papers fully participate in these networks. A large proportion of the radio news is taken directly from the press, thereby expanding the printed media's influence beyond their estimated joint circulation of over 600,000 copies per issue.

The influence of the press is also perceived clearly in political life, and has been particularly noted in the latest election campaign.

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All leading dailies are considered independent because none of them is the organ of a political party. However, the traditional press in Ecuador is, in general, conservative and there are no daily newspapers of liberal or leftist orientation.

Traditionally, the country's constitutions contain guarantees of freedom of expression. As a result, the press has usually served as a forum for remarkably free expression of ideas, although from time to time governments have exerted pressure and some of the most critical media commentators have suffered brief periods of imprisonment. President Roldós has publicly stated the intention of his government to support the complete freedom of the press.

Newspapers

About 22 dailies and 18 non-dailies with a total circulation of over 350,000 copies are published in the main centers of Ecuador.

Quito, the capital, and Guayaquil, the largest city, with three and five daily newspapers respectively, account for the bulk of the country's newspaper circulation and readership. Some of them have large Sundays editions and are circulated throughout the country.

There are five major newspapers: El Comercio and El Tiempo in Quito; and El Universo, Expreso and El Telégrafo in Guayaquil. Of them, El Universo, with about 150,000 copies, and El Comercio, with 100,000 copies, are the leading papers and have national reputations.

El Comercio is an independent, moderately conservative and nationalistic morning paper. It belongs to the Mantilla family, who established it at the beginning of the century. After the recent deaths of the two main owners, Jorge and Carlos Mantilla, El Comercio is directed by a senior journalist, Humberto Vacas Gómez, under the supervision of other members of the Mantilla family.

El Comercio is considered the most influential daily in the country and is, in general, very supportive of the Government policies. It has a very solid economic position and recently has inaugurated a modern plant outside Quito. Some of its employees have received the option of acquiring shares of the enterprise, which also owns another paper and a radio station in Quito.

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Ultimas Noticias is a popular afternoon paper published in Quito by the El Comercio enterprise. It has a local circulation of 35,000 copies on weekdays and 46,000 on Saturdays. It is being revitalized after having lost some ground in past years.

The third newspaper in Quito is El Tiempo, a strongly conservative morning paper. Its main owner is Antonio Granda Centeno, a self-made millionaire, with interests in the industry and other communications companies. El Tiempo defends the private enterprise and has some influence in Government circles although its circulation is very small, about 15,000 copies. The editor is Carlos de la Torre Reyes.

The country's largest circulation daily is Guayaquil's El Universo. It claims an average daily circulation of 150,000 copies. It is owned by the Pérez family; a large, wealthy, and influential group with links to the United States through education and business.

The President of the Board of Directors is Francisco Pérez and the editor is Carlos Pérez Perasso, a U.S. educated journalist.

El Universo is a moderately conservative newspaper, which generally supports the Conservative Party. So far has been supportive of the Roldós Administration but it is critical of the Confederación de Fuerzas Populares (CFP)'s leader Assad Bucaram.

The second newspaper in Guayaquil is now Expreso, a relatively new and competitive morning daily. It is controlled by Galo Martínez Merchan, a former minister in the Velasco Ibarra government. The editor is Abelardo García Arrieta.

It is now a moderate newspaper, a swing from the leftist stance that characterized its first two years. Its circulation is estimated at 25,000 copies a day.

El Telégrafo is the traditional paper of Guayaquil's old families. Founded in 1884 by the Castillo family, it is now owned by La Previsora Bank. Its managing-editor is Eduardo Arosemena Gómez, who also writes a daily column. After being an important newspaper, El Telégrafo has lost ground and now has only a daily circulation of about 15,000 copies.

.../

In Guayaquil there are also two afternoon dailies. Extra is a new, spirited paper under the direction of Nicolás Ulloa Figueroa, a well-known journalist. Extra has a circulation of over 30,000 copies in Guayaquil and is now also being sold in Quito. The Ulloa family also owns Radio La Prensa in Guayaquil.

The other afternoon paper in Guayaquil is La Razón, founded in 1964 by Ramón Yulee Taysing. It is a tabloid with about 28,000 copies daily.

Other important papers are El Mercurio in Cuenca (10,000 copies), El Heraldito in Ambato (3,000 copies), El Globo in Bahía de Caraquez (6,000 copies), and El Mundo in Loja (10,000 copies).

The only non-Spanish newspaper, The Ecuadorian Times, is an English-German language weekly newspaper that was first published in Quito about three months ago by a German, Alexander Kerstein. The Ecuadorian Times is aimed at the business and international community of American and German origin.

There is no national news agency, although the Government's Secretaría Nacional de Información Pública (SENDIP) provides information to all newspapers and media organizations in Ecuador. A private local news agency, Agencia Ecuatoriana de Prensa (AEP), has its headquarters in Guayaquil, and also offices in Quito and other cities.

Magazines

About 39 magazines and periodicals are being published in Ecuador, with an estimated total circulation of 280,000 copies per issue. Among them were a dozen of popular magazines, the largest and most influential being Vistazo, a weekly publication of Editores Nacionales S.A. (ENSA) in Guayaquil.

ENSA's owner and main executive is Xavier Alvarado Roca, a U.S. educated businessman who also owns a television station.

With about 80,000 copies a week, Vistazo is the largest-circulation magazine in Ecuador. Politically a moderate publication, Vistazo was being critical of the former military government and has shown strong support of the Roldos administration. Vistazo covers local and international news, with a sensational bias.

The 23-year old Vistazo has become the leading magazine in Ecuador, and its publishers have started an international edition that is being sold in Colombia, Venezuela, Panama, Central America, and Miami.

.../

The publishers of Vistazo put out other consumer magazines, among them Estadio, a fortnightly sports publication (35,000 copies); and Hogar, a monthly women's magazine (78,000 copies).

Another important magazine, although of much smaller circulation than Vistazo, is Nueva, published in Quito. It is controlled by Mrs. Magdalena Jaramillo Adoum, the wife of a prominent leftist Ecuadorean poet and has become the most influential magazine among leftist intellectuals. It has about 10,000 copies a month.

There are five publications devoted to religious affairs, the largest being Cristiandad Hoy (Today's Christianity) with 30,000 copies.

Radio

Ecuador has approximately 336 originating stations, including some on frequency modulation (FM). The number of radio receivers is estimated in 2 million, serving over 4 million people. As a result of the widespread use of transistor sets, radio broadcast reached people in the most isolated regions of the country and constituted the most important means of mass communication.

Most of the radio stations are privately owned, and, apart from a few cultural and religious stations, are commercially operated. Five major networks included in 1972 over 100 affiliated stations, individually owned and operated. Radio broadcasting requires government authorization in Ecuador.

The government operates one radio station in Quito, Radiodifusora Nacional del Ecuador (National Broadcasting Station). Radio de la Casa de la Cultura (Culture's House Radio) also broadcast cultural programmes from Quito.

The noncommercial station HCJB La Voz de los Andes (The Voice of the Andes) is the most powerful radio station in Ecuador. It is owned and operated by the World Radio Missionary Fellowship, a group supported by several Evangelical Protestant sects in the United States.

The Voice of the Andes broadcast a domestic service of religious and cultural programs in Spanish. It also broadcast to North and South America, the Caribbean, Europe, Australia and New Zealand, Japan, the South Pacific and Southeast Asia in thirteen different languages.

.../

The largest commercial radio network is Cadena Nacional Ecuatoriana, with 29 stations. Its key station, HCMJ1 Emisora Gran Colombia in Quito, owned by Eduardo Cevallos Castañeda, featured news and sports. Cadena Amarillo, Azul y Roja broadcast from key stations in Quito and Guayaquil to a total of 27 stations in the country.

The Circuito HCMQ network operates its key station, Radio Atahualpa, in Quito. Its broadcasts are received by 17 members of the network. Cadena Radio Ecuatoriana, known as CRE network, is transmitted from Guayaquil to its affiliates in other parts of Ecuador.

The fifth major network is Cadena Católica, a Catholic church radio organization with 12 stations. Its key station is Radio Xavier, in Quito.

Two other important radio stations are Radio Quito, owned by El Comercio newspaper in Quito, and 16-year old Radio La Prensa in Guayaquil, which belongs to Miguel Ulloa Figueroa. Both have good news programs.

Television

Television broadcasting in Ecuador has grown rapidly in 20 years. Since the first public broadcast in 1959, the television system has become sophisticated, including installation of color capability in major outlets. In 1972 there were 280,000 television sets, reaching about one million viewers in an around ten major towns, but it is estimated now that there are about half a million receivers.

The largest television network in Ecuador is Cadena Ecuatoriana de Television, whose main station is Channel 10 in Guayaquil. It has installed a nationwide system of boosters that makes it the country's only national network.

The largest of its shareholders is Banco La Filantrópica. Shares are also held by the Pérez family, owners of El Universo of Guayaquil, Ecuador's largest newspaper. It is an independent, nationalist tv network and has national penetration. Its main newscast is El Espectador, broadcast at 1 p.m. and 11 p.m. Editorial direction is under Xavier Benedetti, who also does a daily commentary.

Another network, Ecuavisa, comprises the leading television stations in Guayaquil, Channel 2, and Quito, Channel 8. It belongs to Xavier Alvarado Roca, Vistazo's publisher. It has the best journalistic team, including Alfonso Espinoza, Channel 2 news editor, and Carlos Vera, in Channel 8. Vera, a young journalist, is also editor of Ecuavisa's news magazine "Informe Especial" (Special Report).

.../

Both channels have regional penetration, and Quito's Channel 8 has an estimated audience of 400,000 viewers. El Comercio's Mantilla family had initially participation in the share holdings of Channel 8 in Quito, but apparently Alvarado Roca has now assumed complete control of it.

A third network is Teleamazonas, with its key station in Quito's Channel 4. Teleamazonas has eight affiliate stations in other different areas of Ecuador. Its news editor is Diego Oquendo, considered also one of the leading journalists in Ecuadorian television.

Altogether, Quito and Guayaquil have each four commercial stations. The television network includes a total of 17 stations in the country.

New Ecuador Regime Crippled by Feud Between Leaders

By WARREN HOGE

Special to The New York Times

QUITO, Ecuador, Oct. 29 — Personal antagonism between the President of Ecuador and his former mentor, the head of Congress, has paralyzed the new Government that rousing returned this country to democracy two months ago after nine years of dictatorship.

The new head of state, Jaime Roldós Aguilera, has vetoed most of the legislation passed by the one-house Congress, and the congressional leader, Assad Bucaram, has either shelved or returned to the executive branch the bills submitted by Mr. Roldós.

"It's a personal misunderstanding in which the two principal parties in the dispute are also unfortunately the two principal parties in the state," said a member of Congress, Rodrigo Suárez Morales.

While the impasse continues, the country's economy has come to a standstill and all governmental actions are stalled. Many people have concluded that Mr. Roldós must soon take drastic action such as dissolving Congress or calling for a national plebiscite in a direct challenge to Mr. Bucaram's power.

Problem Is Played Down

Interviewed in his office in the 17th-century presidential palace, the chief executive discounted the problem. "Nine years of dictatorships cannot be overcome without economic and social crises from one day to the next," he said. He termed his difference with Mr. Bucaram one of "political styles."

Asked if the military was showing any signs of wanting to seize upon the situation to return to power, Mr. Roldós said: "Not in the slightest. They are professional and dedicated and have a great sense of respect and support for the Government."

Mr. Bucaram, interviewed in his office in the modern legislative palace on a hill overlooking the old colonial city, struck an avuncular note in commenting on the crisis. "When Dr. Roldós makes mistakes, it is our duty to correct them," he said. "It is the greatest service we can perform."

Mr. Roldós's election was particularly championed by President Carter, who sent both his wife, Rosalynn, and Secretary of State Cyrus R. Vance to the inauguration ceremonies Aug. 10. In July, Mr. Carter entertained Mr. Roldós in the Oval Office in Washington, a protocol-breaking expression of confidence in a President-elect.

Wins Favor in Washington

In taking office, Mr. Roldós had bid for a larger role in hemispheric affairs than his nation of 7.3 million people or his relative inexperience and 38 years would appear to merit. He made a seven-nation trip this summer, declaring his support for human rights and democracy, positions that brought him favorable notice in Washington.

Asked in the interview how relations with the Carter Administration stood,

Mr. Roldós beamed and said, "They continue in the same magnificent state that they have been in."

Mr. Roldós had originally been a stand-in candidate for Mr. Bucaram, a crusty populist leader who has been jailed 17 times and exiled five times in the course of a long activist career as head of the Concentration of Popular Forces party. Mr. Roldós is married to Mr. Bucaram's niece.

The ruling military junta had barred Mr. Bucaram from running for President, a race that political observers say he surely would have run. In his place the party put up Mr. Roldós, then the party theoretician, under the theme, "Roldós in the Presidency, Bucaram in power."

A Sense of Independence

During the campaign for office, however, Mr. Roldós developed his own popularity, upset favored candidates in preliminary heats and emerged on April 29 with nearly 70 percent of the vote and a sense of independence. Mr. Bucaram proved unforgiving and set out to make good the discarded campaign slogan.

Mr. Bucaram wields total power over his party, deciding even what hotel rooms its members of Congress will stay in. "He manipulates his members with his fist," commented Rodrigo Borge Cevallos, an opposition legislator.

In his new role of president of Congress, he was taking charge of a group of men who had been silenced for the past nine years and were eager to speak up. Television cameras and radio microphones are allowed in the glass empaneled congressional chamber during session, and this proved to be an additional incentive to lofty speech-making.

"There was an emotional flood," said

Representative Gil Barragán Romero, "and the waters haven't yet found their level."

Mr. Bucaram entered into a coalition with the Conservatives, the party whose political views are most distant from his own, to attain an absolute parliamentary majority. Though he won congressional power, he lost the support of many long-time backers, disillusioned by an alliance with what they termed the "oligarchy."

He then put through Congress a package of social legislation but refused to consider tax measures proposed by Mr. Roldós to pay for them.

Instead Mr. Bucaram sent to the executive branch several measures Mr. Roldós was obliged to veto, among them a bill that could have effectively removed Mr. Roldós from office for disagreeing with party decisions. Mr. Bucaram began labeling Mr. Roldós a "traitor."

'Tolerant for Democracy'

Mr. Roldós, in reaction, never mentioned Mr. Bucaram by name and limited his criticism to complaints about Congress in general. "I am tolerant for democracy," he said. "I will be so in the five years of my government, but I am not going to stay put in face of so many offenses, which are offenses against the people; I am the result of over one million votes."

In another speech, he announced, "We are not going to accept dictatorship of any sort."

Mr. Roldós traveled around the country on campaign-like trips while he waited for the adjournment of Congress Oct. 8. Mr. Bucaram, however, had another surprise. He invoked constitutional provisions to extend the term of Congress past its normal 60-day period, summoning the legislators back to Quito for a 35-day special session that is now in its third week.

Nation's Prosperity Imperiled

Critics faulted Mr. Roldós for taking no action to defy Mr. Bucaram and for not moving on issues such as Ecuador's gasoline price that required no congressional approval. Ecuador began pumping oil

from its Amazon jungles seven years ago and maintains a subsidized gasoline price of only 18 cents a gallon. Domestic consumption has risen so drastically, however, than five years from now, barring new discoveries, Ecuador will have no more petroleum to export and its prosperity will be doomed.

Mr. Roldós continues to enjoy enormous popularity throughout the country while Mr. Bucaram is increasingly being pictured as vengeful and reckless. Among politicians, however, there is grudging respect for his knowledge of the political craft.

"He is my personal and political enemy," said Representative León Febres Cordero, a member of the rightist Social Christian Party. "But he knows how to use power a lot better than the young man who is now the President of Ecuador."